THE MONTHLY ANALYSIS OF STATE GOVERNMENT AND POLITICS

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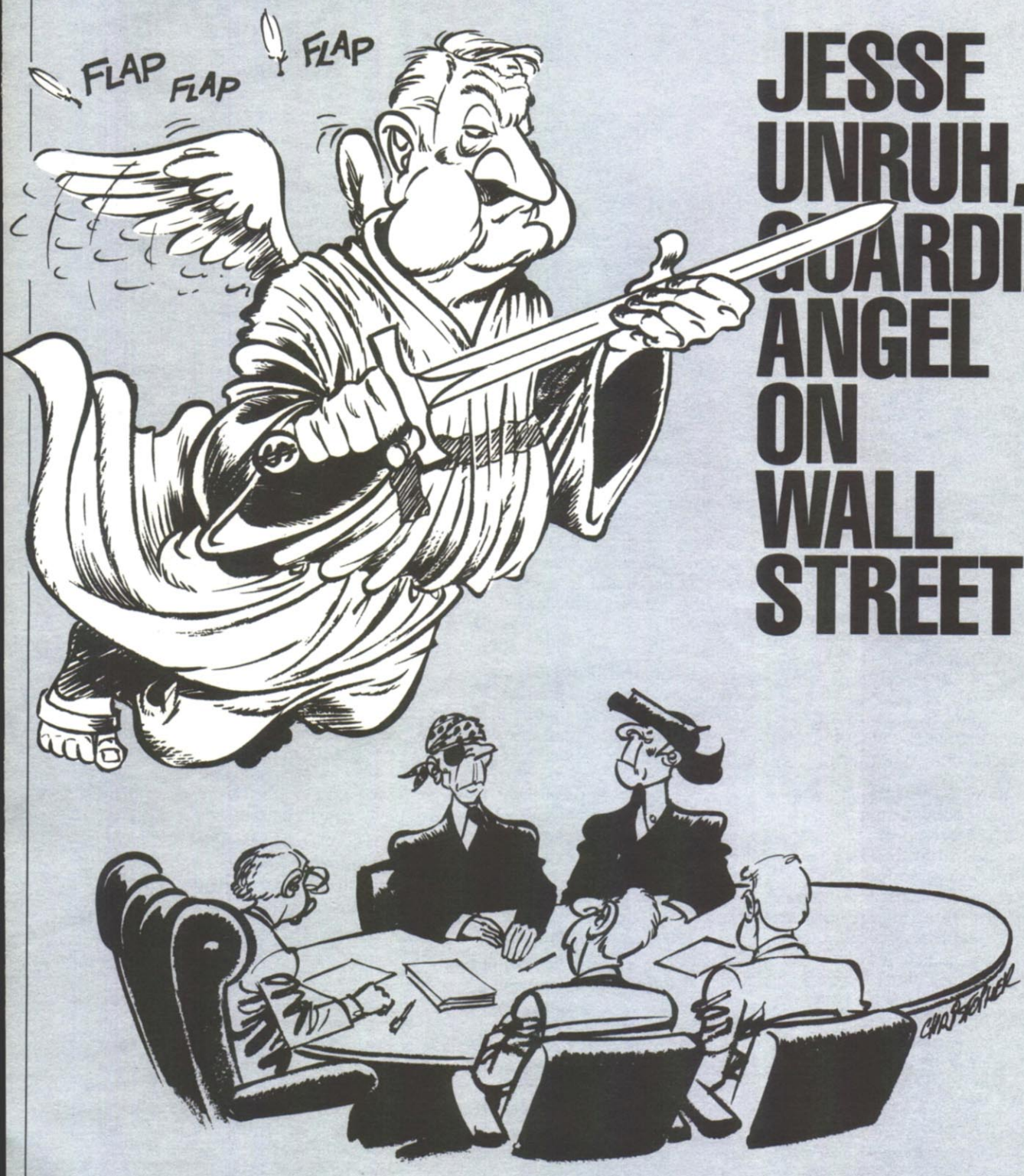

JESSE UNRUH, GUARDIAN ANGEL ON WALL STREET

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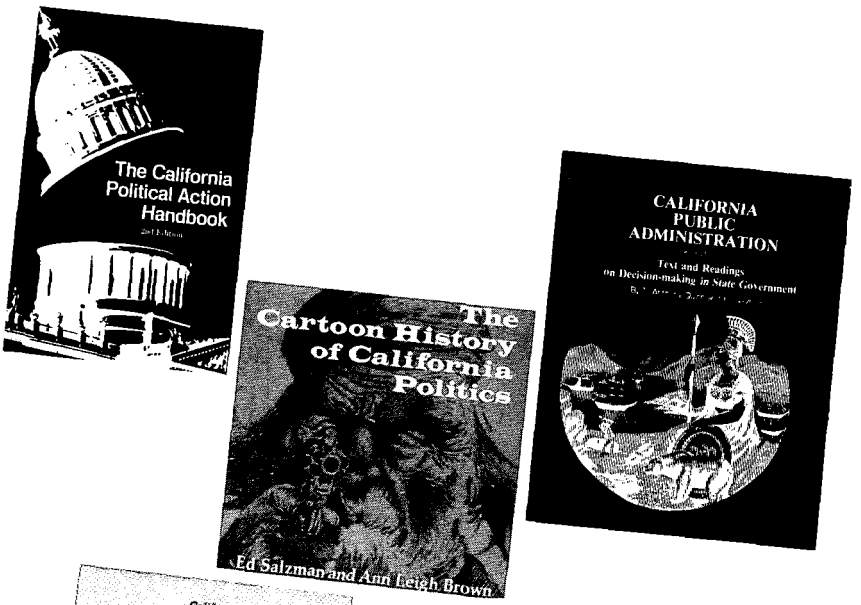
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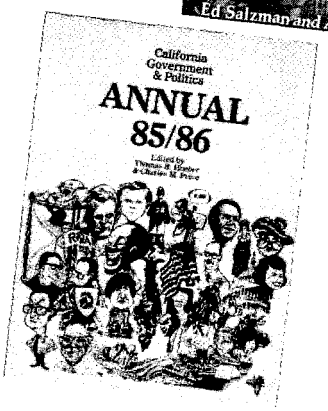

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— John Chancellor

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CALIFORNIA Journal

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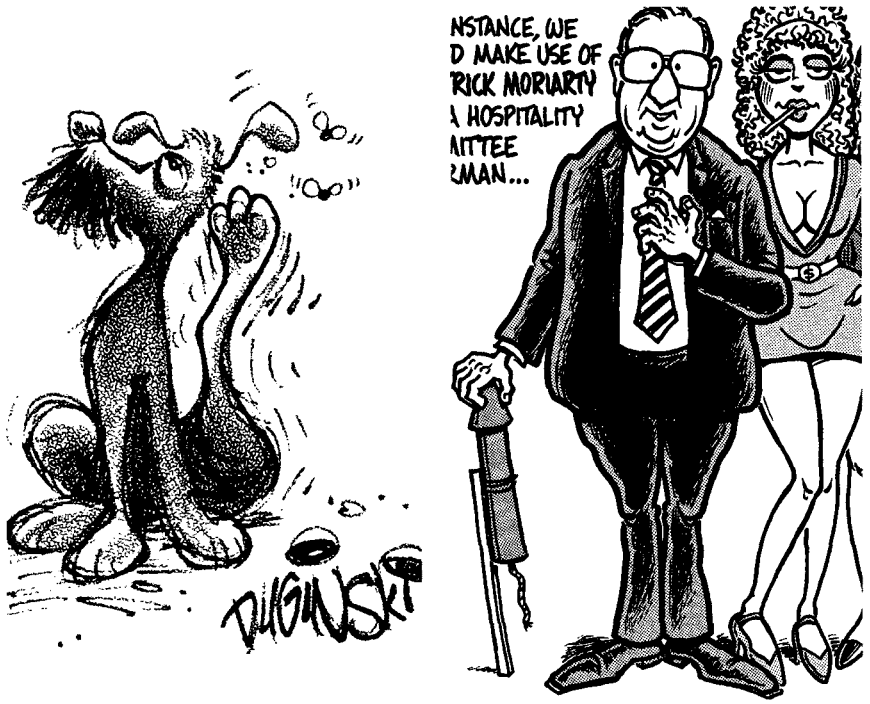

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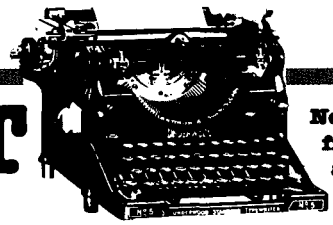
UP FRONT



Notes and Items from Contributors and the Journal Staff.

With this issue Richard Zeiger becomes editor of *California Journal*. Zeiger has been a reporter for *The Press-Enterprise* of Riverside since 1969 and its Capitol bureau chief since 1978. He attended the University of California at Santa Barbara where he was editor of the student newspaper, *El Gaucho* (See what college extracurricular activities can do for you!) and earned his B.A. from UC Riverside. Zeiger lives in Sacramento with his wife, Jane, and his daughter, Sarah. Robert Fairbanks, editor of *California Journal* since 1982, is leaving to explore various business opportunities and we wish him well in his new endeavors.

(Thomas R. Hoeber)

If GOP Assemblyman Don Sebastiani has his way, pro-life advocates will be able to display their opposition to abortion with something more permanent than a bumper sticker. Sebastiani has introduced a bill (AB2145, sponsored by the American Life Lobby) that, for a fee, would make special license plates available, decorated with "a depiction of an unborn child in fetal position." According to the bill, the fees would go into an Unborn Child Protection Fund, which would also receive money from a state income-tax check-off. Unfortunately, Sebastiani's measure doesn't give even a hint how the Fund is to be spent; it leaves that entirely to the Legislature. Don't look for the license plates anytime soon, however, for AB2145 is a two-year bill currently on hold in the Assembly Revenue and Taxation Committee, where it's likely to stay.

Assemblyman Steve Peace, the Legislature's only certified movie mogul with one 10-year-old smash underground hit — *"Attack of the Killer Tomatoes"* — to his credit, plans to be back soon at a movie theater near you with his second feature effort, *"Sour Grapes."* *"Tomatoes,"* a spoof on horror films, played well on college campuses and made a lot of money for the Democrat from Chula Vista. *"Grapes"* is aimed at a now-more-mature "baby boom" audience. The plot centers on "industrial espionage," after a beer company discovers an ingredient that makes beer virtually irresistible. The film will be "PG" rated; "No naked people," says Peace, and will be "if you can picture this, a kind of an action Neil Simonish" picture. Peace is the producer and co-author of the new epic, which he says can be profitable because of the home-video market, even if it's not a smash success in movie houses. Between the two feature films, Peace's production company has been making sports films and films for corporations. Release of the film, which stars Jamie Farr from the television series *"M*A*S*H"* and impressionist Rich Little, is due out "anytime between January and Spring," says Peace.

Maybe Teresa Hughes, head of the Assembly's education committee, or her Senate counterpart, Gary Hart, can help provide the missing word(s) in the first paragraph of this recent press release from the Department of Education: "A key education leader in the United States today, and the man responsible for orchestrating the massive education reform effort in the nation's most populous state, California State Superintendent of Public Instruction Bill Honig will participate in a National Education Association conference in Hilton Head, South Carolina."

After going through our trivia quiz in the May issue, several readers submitted favorite questions of their own, and we'll get to them in a moment. But first this gentle correction from reader David E. Sturrock:

"Many thanks for your California Political Trivia. As vice chairman of the Santa Clara County Republican Central Committee and lifelong political buff with a pronounced taste for the obscure, I was in hog heaven answering your questions. For the record, I'm proud to report a 90 percent score. However, I must call your attention to a couple of errors. To the question (#9), 'Who held elective office longer than anyone in California history?', the answer is not George Reilly, but Augustus Hawkins, with 50 years and counting in the Assembly (1935-63) and the U.S. House of Representatives (1963 to present). Reilly, however, certainly deserves recognition for longest tenure in one office. Also (contrary to what we said in answer #25) father Frank C. Jordan served longer as Secretary of State than son Frank M. — by two years. Frank M. died in office in 1970, not 1974."

Sturrock also presented two questions of his own, which we'll pass on with others that we've received. Answers are below.

1 — Name the third member of the Jordan family who unsuccessfully sought the secretary of state job.

2 — For what do the initials in Senator H.L. Richardson's name stand?

3 — Which U.S. senator from California was a relative by marriage to Joseph Stalin? *(Tony Quinn, Sacramento)*

4 — Name two current legislators born in a foreign country. *(Roger Canfield, Sacramento)*

5 — Ronald Reagan was elected to another public office in California before he became governor. What was it? *(Carl Olson, Vienna, VA)*

Answers

1 — Alberta Stutzmann Jordan, Frank M. Jordan's second wife, lost to James Flournoy in the 1970 primary.

2 — Hubert Leon.

3 — S.I. Hayakawa, whose wife's brother was once married to Svetlana Stalin.

4 — Senator Wadie Deddeh, born in Syria; and Assemblyman Ernie Konnyu, born in Hungary.

5 — In 1961 Ronald Reagan was elected as a founding director of the Topanga-Las Virgenes Resource Conservation District.

The following should be a trivia item as well, but Larry Thomas, the governor's press secretary, didn't send it in that way. He passed along a March 25th report from *The Times Record* of Troy, New York, that the New York town of Watervliet, now part of the Village of Menands, was the birthplace of two California governors. George Deukmejian was born there in 1928, and it was Leland Stanford's birthplace in 1824.

Chief Justice Rose Elizabeth Bird is nothing if not well read. In her concur-

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ring opinion in the public employees' right-to-strike case, Bird cited the words of a well-known unionist: "I think we have the right as free men to refuse to work for just grievances: the strike is an inalienable weapon of any citizen." The words were those of the former president of the Screen Actors Guild, Ronald Reagan, who has since gone into politics, in his 1965 autobiography, "Where's the Rest of Me?"

(Ken Jost, Los Angeles)

California Journal was the recipient recently of the magazine industry's equivalent of an Oscar: the Maggie. The award for excellence in a new category of "Public Service Article or Series," was for the

November 1984 Ballot Booklet published last year to help explain measures confronting voters during that election. Similar booklets are published by the *Journal* before every statewide election, and it is gratifying that our latest ballot booklet won this new category in its inaugural year. Maggies are awarded each year by the Western Publications Association, which covers the 13 western states. In previous years the *Journal* has won Maggies for design and for the annual *Roster and Government Guide*.

David Kelley, the unassuming Republican from Hemet in Riverside County, is the least likely assemblyman to incite a leadership fight. But Kelley, a six-year veteran legislator, now finds himself in the very same office he had as a freshman because of too-vocal complaints about Assembly Minority Leader Patrick Nolan. At Nolan's request, Speaker Willie Brown bounced Kelley out of his old office (installing Nolan stalwart John Lewis of Orange in his place) and removed Kelley from his two favorite committees — Water, Parks and Wildlife, and Agriculture. Kelley admits grousing but denies he was attempting to line up votes to oust Nolan. Nolan, who insisted he "did not feel at all threatened" by Kelley, refuses to discuss the matter further. Others in the Republican caucus speculate that Nolan, upset by internal criticism he was not tough enough on Democrats during budget negotiations, needed to make an example of someone and prove he was in charge. GOP Assemblyman Richard Mountjoy of Monrovia referred to the action as an "acute case of paranoia." After a few days, and some pressure from Kelley sympathizers, Nolan had Kelley put back on the water committee.

Assemblyman Nolan Frizelle has sent a letter to all news bureau chiefs at the Capitol urging that reports about legislation always include the name of the author and the bill number. Thus a report on follow-up care for stroke victims would mention AB59 by Frizelle. We know what you think but, really, it's a good idea.

California Lottery Commissioner William Johnston has been pushing his colleagues to have the lottery hire retired school administrators as field agents and managers. At the June 7th commission meeting he even went so far as to circulate his very own proposed "qualifications for employment" for these positions. One of those requirements was that each agent or manager have a masters degree, plus 14 hours of additional graduate-level credit. When Commission Chairman Howard Varner asked who would have such an academic record, Johnston unabashedly replied, "All school administrators do." The proposal was not adopted. Johnston, of course, is the retired superintendent of schools for the city of Los Angeles.

(Susan Jetton, Sacramento)

Joel Moskowitz, Governor Deukmejian's controversial and outspoken head of toxics programs, resigned in June after two years on the job to take a position with a private law firm. A former deputy attorney general, Moskowitz is credited by his supporters with turning around the state's moribund efforts to regulate and enforce toxic clean-up. But his detractors, including many in the Legislature, found him pushy and complained that he promised much more than he ever delivered. "A guy like him just has a limited shelf life," said one administration official. Word was also out that Moskowitz would not be named to head the new cabinet-level Department of Waste Management proposed in the governor's toxic reorganization plan recently defeated by the Legislature.

Come across a blurb lately that's nosy, newsy or smart-alecky about California government, politics or politicians? Share it with the Journal. *We pay up to $25 for entertaining tidbits published in "Up Front," so rush your items to Up Front, 1714 Capitol Avenue, Sacramento 95814. Sorry, submissions cannot be returned.*

Where there is an open mind, there will always be a frontier.
— Charles Kettering

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JESSE UNRUH, GUARDIAN ANGEL ON WALL STREET

His pension-fund network a new force in corporate take-over wars

By ROGER RAPOPORT

Just about anyone who reads the business page knows how a corporate take-over works. A raider offers to purchase shareholders' stock at a price over the market value. The raider argues that the shares are undervalued because management is doing a poor job. But the corporation's chief executives counter that the raider is simply out to milk the firm's assets — or even worse, liquidate them. From this starting point the battle can turn into a complex process often freighted with offers and counter offers. But in the past few months an old name has become a new force in the take-over arena: Jesse Unruh.

The idea of the California treasurer marching on Wall Street in behalf of a $100 billion state pension fund consortium may seem laughable. But this is no joke. In what may be the single most brilliant stroke of his lengthy political career, Unruh has banded together leaders of 26 major employee and union pension funds from California and

Roger Rapoport is a business writer for The Oakland Tribune.

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other states, with combined assets slightly over $100 billion, into an organization called the "Council of Institutional Investors." About $38 billion of that sum comes from California funds that number Jesse Unruh among their trustees. Thus it's no surprise that the treasurer is co-chair of the new council.

The idea of Jesse Unruh becoming an important public figure in take-over battles seems incredible. Yet that is precisely what has happened in two recent struggles over the fate of Phillips Petroleum and Unocal. While Unruh and the pension funds are not threatening to vote as a block, they clearly have the potential swing votes to command the respect of both sides in many large publicly-held corporations. Institutional investors, with assets estimated at $1.5 trillion, are obviously a major force in corporate finance. Although the largest single segment of this

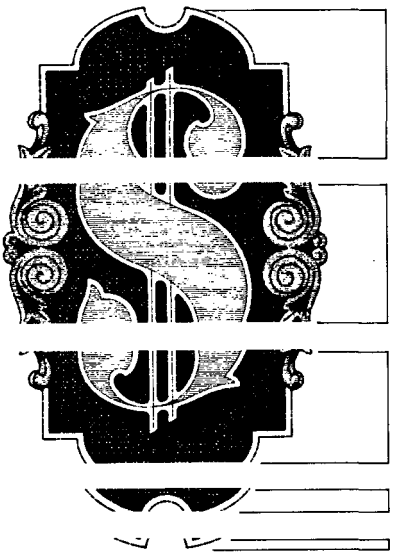
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Stock portfolio: 300 companies
Book value: $6.4 billion
Market value: $7.8 billion
(as of March 22, 1985)

Company	% of Portfolio	Book Value (millions)	Market Value (millions)
1. IBM	4.8	$215	$376
2. Exxon	2.2	94	173
3. GE	1.7	60	134
4. Standard Oil	1.2	40	97
5. ARCO	1.0	42	81
6. 3M	1.0	61	79
7. AT&T	.9	52	68
8. DuPont	.9	58	67
9. GM	.8	52	61
10. Phillip Morris	.8	43	60

Source: Public Employees Retirement System

TOTAL: $26 billion, as of May 31, 1985.



BONDS: 34.8 percent, or $9 billion.*

MORTGAGES: 31.1 percent, or $8.4 billion.

STOCKS: 25.7 percent, or $6.6 billion.

REAL ESTATE EQUITY: 5.6 percent, or $1.3 billion.

CASH: 2.8 percent, or $741.6 million.

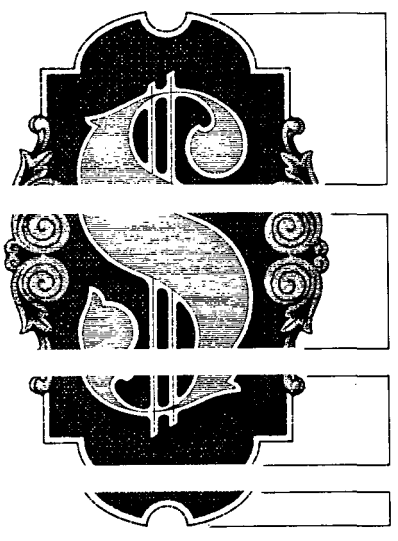
STATE TEACHERS RETIREMENT SYSTEM (STRS)

Stock portfolio: 115 companies
Book value: $2.6 billion
Market value: $2.7 billion
(as of June 30, 1984)

Company	% of Portfolio	Book Value (millions)	Market Value (millions)
1. IBM	4.7	$93.3	$125.6
2. American Express	3.5	85.9	94.3
3. R. H. Macy	3.1	84.9	82.7
4. Worthrup	3.0	71.8	81.6
5. Boeing	3.0	79.5	81.1
6. GM	2.8	74.4	76.1
7. Bristol-Meyers	2.7	60.3	74.0
8. Merck & Co.	2.5	61.1	66.2
9. K-Mart	2.1	66.3	57.1
10. GE	2.0	28.1	52.5

Source: State Teachers Retirement System

TOTAL: $12.4 billion as of June 30, 1984



BONDS: 39.4 percent, $4.9 billion.*

REAL ESTATE MORTGAGE LOANS: 30.6 percent, $3.8 billion.

COMMON STOCKS: 20.7 percent, $2.6 billion.

SHORT TERM INVESTMENTS AND CASH: 9 percent, $1.1 billion.

REAL ESTATE EQUITIES: .3 percent, or $36.5 million.

*Dollar figures are rounded.

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group is corporate employee pension funds with $800 billion in assets, these funds usually delegate their voting rights to professional money-managers or bank custodians. For that reason the major public pension funds, with about $400 billion in assets, are potentially the most important power block in today's raider-prone investment world. And that's why Big Daddy is heading for Wall Street.

Unruh wants to protect the interest of pension-fund shareholders. But knowing which side to support is not an easy task. In this complex and fascinating process, Unruh sees himself as a potential arbitrator, balancing opposing sides in an effort to get the best possible deal for the pension funds. And for anyone who has kept track of his decisive role as state treasurer in the $3 billion-a-year state revenue-bond market (see "Unruh's Growing Power," *CJ*, February 1983), it's clear that the treasurer knows how to establish a successful power base.

Greenmail

Unruh says he wants to turn the pension funds into a kind of shareholders'-rights organization. "Many of us serving as pension-fund trustees were dissatisfied being passive participants in corporate events that affected our equity. This council is our attempt to deal knowledgeably with events that affect shareholders."

Unruh's anxiety was over "greenmailers" — raiders who agree to give up a take-over bid if management will buy back their shares substantially in excess of market value. In effect, the companies are willing to pay the raider a premium for his stock just to go away. Unruh was quick to realize that the public pension funds, representing stock in excess of 28 percent of all outstanding shares of publicly-owned corporations, take the biggest beating and show the largest losses. Many of the larger institutional funds have holdings of greater than 500,000 shares in a number of corporations. A drop in market value due to a greenmail payment of just $5 per share would result in a net loss of $2.5 million.

A case in point was Walt Disney Productions' decisions to buy back Saul Steinberg's 11.1 percent of the company in June 1984. The company's stock dropped 15 points. Unruh quickly calculated that one California pension fund, holding 500,000 Disney shares, had just lost $7.5 million. Equally disconcerting was a decision by Texaco to buy back two million shares of stock owned by Texas' Bass brothers, for the California Public Employees Retirement Fund and the California State Teachers Retirement System own nearly one percent of Texaco's stock.

Convinced that greenmail was "completely odious," Unruh began talking to his peers around the nation. "The question was what impact were all these defensive techniques having on shareholders. It occurred to me that if

A PAPER LOSS ON UNOCAL

By PATRICIA SULLIVAN

The decision of the state's two pension funds to side with Union Oil Company's management against the hostile takeover attempt by T. Boone Pickens may, at least on paper, cost the state's retirement fund more than $30 million.

With 630,000 Unocal shares, the Public Employees Retirement System would be $17.6 million richer today had PERS sold its Unocal shares when the stock peaked at $53 per share. The State Teachers Retirement System, with 533,000 shares, would be richer by $13.3 million.

Unocal stock was selling for around $38 a share before the take-over bid started. Pickens began moving, and the stock reached a high of $53 a share. When the take-over failed, the stock plummeted below $30 per share. But state Treasurer Jesse Unruh defends the decision to stick with Unocal management saying, "You can't make that decision on a day-to-day basis, be in and out. The funds acted responsibly."

He has no regrets, "not yet." However he said he is in the process of asking for a review of "what we understood Unocal's offer to be, to see if they have complied with that offer." There is a question, Unruh said, on the limited public partnership offer Unocal made.

Tom Aceituno, Unruh's general counsel, is more blunt: "There is disappointment over what management has done." The limited partnership Unocal held out "is not as significant to shareholders as we thought it would be."

Patricia Sullivan is Sacramento correspondent for the Los Angeles Daily Commerce.

The bulk of both STRS and PERS stocks are "index funds" managed by professional securities-fund managers. Index funds are similar to mutual funds for individual investors. The PERS fund is invested in Standard and Poors' 500 stock index securities, purchased in the same proportions as their weight in the index. Trading is not done from security to security.

Of PERS' $6.6 billion invested in stocks, $3.4 billion is in a "passive" S&P 500 index fund managed by Bankers Trust of New York. All 630,300 Unocal shares are in that fund.

All of STRS $2.6 billion common stocks are in three different index funds managed by Alliance Capital Management of San Francisco and Trust Company of the West of Los Angeles. They are passively managed, but, according to Steve Watson, associate analyst for STRS, the trustees make the decisions and can direct the managers to sell any stock within the fund.

Says Unruh: "You don't sell index funds because the price goes up; you don't buy because it's going down. You look at the long term of a company."

By siding with management during the takeover attempt, the pension fund trustees gave a vote of confidence to Unocal management, signaling the expectation that Unocal will earn more over the long haul. The PERS board did, however, sell 400 "discretionary" shares of Unocal during the takeover attempt.

"As oil companies go, Unocal is a pretty well run company. They're not into hot dog stands, hotel franchises, that sort of thing," said Unruh.

They are also a major California corporation, one of the state's largest. Such firms can be of help to the politically ambitious. Unruh concedes that the company's presence in the state made a difference to him. "The jobs it has in California contribute to the California economy. Pickens looked like a take-over to milk the company." he said.

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MEMBERSHIP LIST: COUNCIL OF INSTITUTIONAL INVESTORS

Building Trades United Pension Trust Fund
Assets: $260 million

California Public Employee Retirement System
Assets: $26 billion

California State Teachers Retirement System
Assets: $12.4 billion

City Employees Retirement System — Los Angeles
Assets: $1.6 billion

Combined Retirement Fund — State of Connecticut
Assets: $3 billion

Delaware Employees Retirement Fund
Assets: $821 million

District of Columbia Retirement Board
Assets: $600 million

Fire and Police Pension System — City of Los Angeles
Assets: $1.6 billion

Illinois State Board of Investment
Assets: $1.7 billion

International Brotherhood of Electrical Workers
Assets: $385 million

International Union of Operating Engineers
Assets: $1.2 billion

Los Angeles County Employees Retirement Association
Assets: $4.8 billion

Massachusetts Pension Reserves Investment Management
Assets: $500 million

Minnesota State Board of Investment
Assets: $5.6 billion

New Jersey Division of Investment
Assets: $9.2 billion

New York City Pension Funds (five separate funds)
Assets: $21 billion

San Francisco City and County Employees Retirement System
Assets: $2 billion

Sheet Metal Workers
Assets: $527 million

South Dakota Investment Council
Assets: $900 million

Teamsters Affiliates Pension Fund
Assets: $343 million

United Food and Commercial Workers/Food Employers Fund
Assets: $500 million

U.S. West
Assets: $5 billion

State of Wisconsin Investment Board
Assets: $10.6 billion

Washington Suburban Sanitary Commission
Assets: $96 million

we (the institutions) had been on top of things in the Texaco or Disney deals there might have been no greenmail paid to the Bass brothers or Steinberg. In most cases, we were voting blindly with company management because nobody knew what else to do."

In addition to greenmail, Unruh was troubled by "poison pills," a defense that makes the take-over so expensive that the pursuer gives up. And he was also dubious about "shark repellant," a management device that changes bylaws to make a take-over more difficult. "My concern was how all these techniques affected shareholder rights," Unruh says.

It has not gone unnoticed on Wall Street. "This (Unruh's new council) can't be good for my business," says one New York investment banker who requested anonymity and who represents raiders on the prowl and corporations trying to defend against a take-over. As in football, both sides depend heavily on the element of surprise, but the presence of Unruh's council — with its requests for information — opens the whole take-over process to broad public scrutiny.

Shedding light

By forcing the hand of take-over-prone companies and making them go public with the intimate details of their sale, Unruh hopes to shed light on such behind-the-scenes arrangements as "golden parachutes." This is a promise of a large bonus to a top executive in the event his company is taken over. Frequently it takes the form of an employment contract. Another concern is leveraged buyouts where the acquisition of a company is financed largely by borrowing against the firm's assets. While golden parachutes can be great for managers and leveraged buy-outs may be a godsend to raiders, Unruh thinks they may not always serve the best interests of shareholders.

He believes the new council has a unique opportunity to exert an "incredible force." That power, quite simply, is the potential to alter the nation's merger and acquisition landscape. Members have the votes to directly influence many of the major take-over battles. Unruh insists that the member pension funds are "independent and would never vote as a block. This group is not going to agree on much of anything. Some are politicians, some are not. But all of them are anxious for more knowledge."

The Phillips take-over battle last February was the first evidence of the new Council's clout. Unruh's group sought and won a meeting with all the key players in the battle, including Phillips' chief executive William Douce, raiders T. Boone Pickens (of Mesa Petroleum), Carl Ichan and arbitrageur Ivan Boskey, to discuss Phillips' recapitalization plan. Here they had a chance to evaluate the oil company's defense and hear out the raiders as well. "We deliberately didn't try to count shares before we went into the meeting," says Unruh. "We didn't want to go into the meeting saying we represented a power block." But Unruh did suggest that management postpone its planned shareholders' meeting, to give stockholders more time to digest the recapitalization plan and assess its impact on pension-fund holdings.

Unruh's request was ignored, and the State Public Employees Retirement System and the State Teachers Retirement System then voted their 690,000 shares against the recapitalization program, which was defeated. They were joined by members of Unruh's council from other states. In the wake of all that, the business community began to take notice. There were daily stories in the *Wall Street Journal* and long, complimentary features in *The Los Angeles Times* and *New York Times* on the resurrection of Big Daddy.

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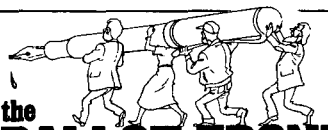
The next big event involved Union Oil Company's successful fight against raider Pickens. In this case, California's public-employee pension fund voted its proxies on behalf of Union's parent, Unocal. Here Unruh had high praise for management's decision to shun greenmail. "This is very positive for California pension funds," he says (see box).

But Unruh's initial anti-greenmail tack may have to change. According to Pamela Shein, the Washington-based director of the new council, "Greenmail is starting to fall off." And some investment bankers believe that the anti-greenmail view is naive. "Take his Disney tack," says one New York merger-and-acquisition specialist. "Disney is now trading at $77 a share. That's $7 a share more than the supposed greenmail Disney paid Steinberg to go away. The stock is trading 70 percent higher than it was when Steinberg bought in. It went higher because a lot of people realized Disney was undervalued. And I think it may go up to $100. That means all the shareholders, including the retired teachers in California, gained."

But the specifics of Unruh's attack may be less important than the attention he and his new organization can bring to corporate policies. "The bottom-line," insists Unruh, "is whether the current management has been and will continue to effectively and profitably protect shareholder interests."

And for the investment community the bottom line is the potential power of the funds that Unruh is unifying. Or as Ken Miller, head of Merrill Lynch's merger-and-acquisition group, put it to *Business Week:* "If the institutions start speaking with one voice, they could become a financial OPEC."



the BALLOT FRONT

A roundup of statewide initiative proposals. All statutes require 393,835 valid signatures; constitutional amendments require 630,136. In parentheses are the deadline for sponsors to submit signatures to county clerks and the issue of California Journal *that contains a full explanation of each measure.*

New in circulation:

ANTI-APARTHEID POLICY — an initiative statute, sponsored by Jules S. Barnaris III of The American Roundtable of Sacramento, that makes findings and declarations concerning the apartheid policy of the Republic of South Africa. The statute also requires the governor to transmit these findings and declarations to the state Legislature, urging lawmakers to enact appropriate public policy against apartheid. It also requires the governor to transmit the same message to Congress and to the president. (November 14th)

Continuing in circulation:

DENTURIST LICENSURE ACT — an initiative statute, sponsored by Darryl L. Allison of Alhambra. (September 30th, *CJ,* July 1985)

MOTOR VEHICLE INSURANCE — an initiative constitutional amendment, sponsored by Manuel D. Talley of Los Angeles. (September 30th, *CJ,* July 1985)

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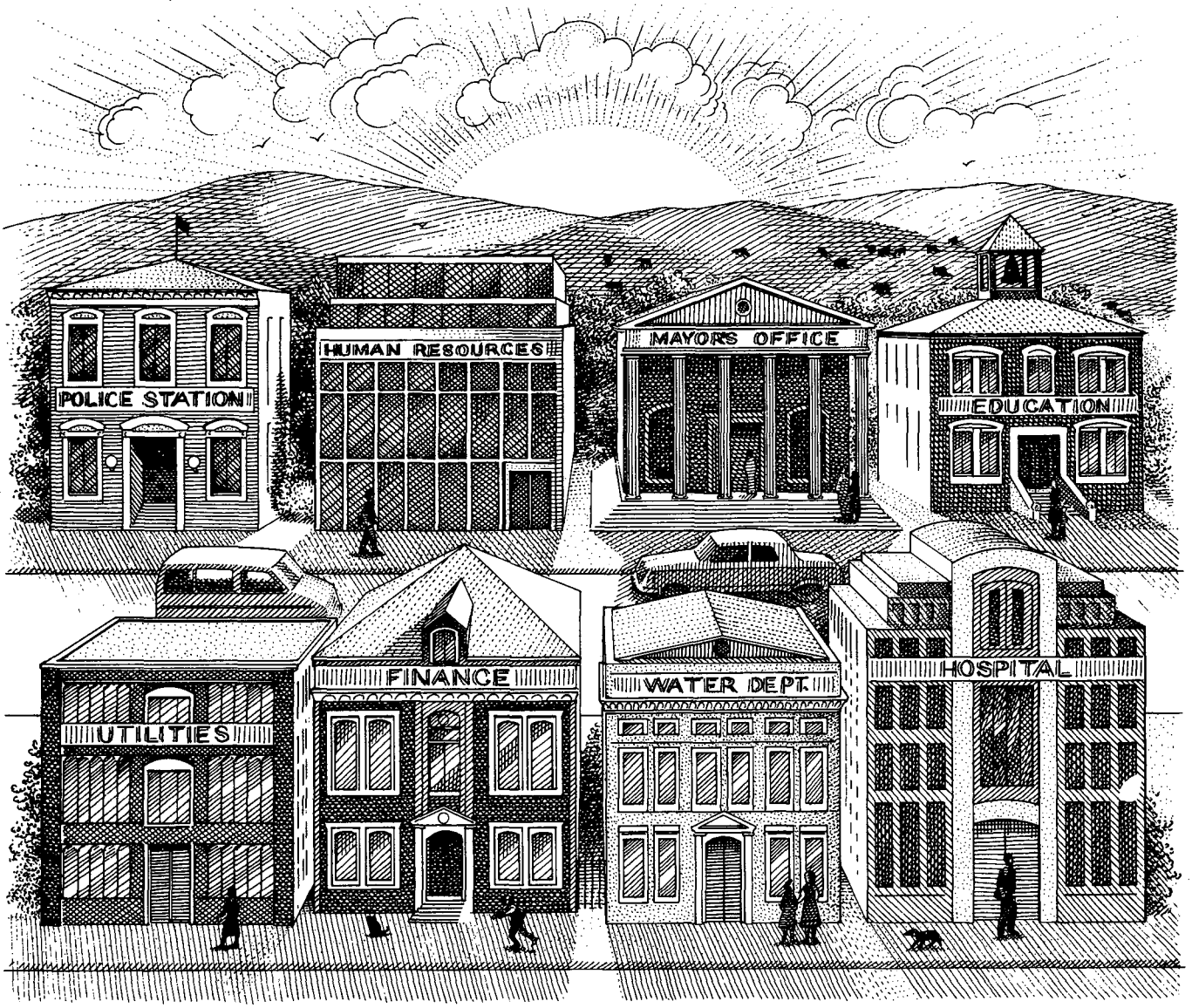

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Using direct mail to fuel a resurgence

ANTONOVICH

DEL JUNCO

REINECKE

By LAURA MECOY

When Los Angeles physician Tirso Del Junco took over as chairman of the state's Republican Party organization in 1981, he didn't have a staff and his office was a truckload of furniture shipped from Fresno. The organization owed $100,000 and had only $20,000 in the bank, and the Fair Political Practices Commission and the Federal Elections Commission were poring over its messy financial records. (By the end of the year, the FPPC would slap the GOP with a $25,000 fine for failing to identify all of its contributors.)

But all that has changed. Today, the party organization has money in the bank, a model accounting system and a staff of 17. What's more, the party has two well-furnished offices — one in Sacramento and the other in Burbank — and a headquarters building (in Burbank) is being planned.

To what does the GOP owe its new look? Obviously Del Junco and his successor in 1983, former Lieutenant Governor Ed Reinecke, receive most credit for the change. But more specifically, the answer is direct mail — those computer-targeted, personalized letters that urge the faithful to give money. Today, with a computer keystroke, the organization can reach some 350,000 regular donors. During its last budget period (1982-84), its computers spewed out 14 million pieces of mail that brought in $6.4 million, or about 60 percent of the party's $10.7 million budget for the period.

Considering that Governor George Deukmejian alone is planning to raise about $12 million for his reelection effort in 1986, the GOP direct-mail operation may not seem like much. But considering that the official Republican Party organization in this state, like the Democratic, has no real political power, the raising of $6 million is a genuine achievement.

In California, political parties — as organizational entities — are notoriously weak. Viewed with dislike by progressive reformers during the early years of this century, they were legally denied the power to choose the persons who run as candidates for them. Thus any person may declare himself or herself a Democrat, Republican or whatever, enter a primary election and, if victorious, become the party's nominee.

By law, the party organization may play no role in the process and, according to standard legal interpretations, it may not even endorse the primary candidate of its choice. Furthermore, the progressive reformers also decreed that local elections in California were to be non-partisan, meaning that even party labels, much less party endorsements, were to play no role at that important level of government.

Membership in party organizations also is controlled by law and is restricted to relatively low numbers. At the state level, the party organization is known as the "state central committee" and is composed largely of party candidates who ran in the previous election and their appointees. On the Republican side, there are 1209 central committee members, or .02 percent of the 4.6 million registered Republicans in the state.

Renewal

True, recent court decisions have opened the door for parties to expand their memberships and increase their political power, largely by taking a bigger role in candidate selections (see "Party Renewal," *CJ*, December 1984). But one of those decisions, a key federal court ruling handed down in April 1984 (*San Francisco County Democratic Central Committee et al v. March Fong Eu, et al)* is on appeal, and party leaders meanwhile are doing little more than think about the situation. Thus for the time being, at least, the role of a political party in California is to hold a convention occasionally, adopt a list of policy resolutions and then hope that the state's elected officials will look favorably on those policies and perhaps convert a few of them into law.

Laura Mecoy is a state Capitol reporter for The Sacramento Bee.

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Except, of course, that the Republican Party is now also raising a fair amount of cash. As mentioned, the amounts are not all that impressive when compared with what elected officials are doing for themselves, but they represent an achievement nonetheless. And the amounts look especially good when compared with what the Democratic Party organization has been able to do.

During the time that Republicans were taking in that aforementioned $6.4 million through the mails, Democrats were raising $2.4 million from all sources. "The pervasive thinking is that the Republicans have seized the technology and are marching forward with it," says the Democratic organization's executive director, Mary Hughes.

Del Junco, the central committee chairman who got things going for the GOP, is a 57-year-old Cuban native who came to this country in 1949 to complete his medical training and who decided to stay, eventually becoming a successful surgeon in Los Angeles. Before becoming party chairman in 1981, he had served as party secretary and as president of the California Republican Assembly, a volunteer group.

After raising some money through traditional devices (a dinner, for instance, with Vice President George Bush as the guest), Del Junco hired a direct-mail firm to straighten out the GOP's neglected mailing lists. There were 250,000 names there, but because of duplications and errors only about 50,000 were usable.

The rest, as they say, is history. Reinecke, who succeeded Del Junco in 1983, had been working with Del Junco all along and continued the direct-mail effort. By the time Reinecke stepped down early this year, fund-raising appeals from the party were being delivered to potential contributors at least once every five to six weeks.

Generally speaking, the GOP works with two types of mailing lists. John Rico — political director on the GOP staff, says the first are the so-called "house files," lists containing the names of persons who have given money to various Republican causes in the past and are therefore most likely to give again. These lists, containing about 350,000 names, produce most of the GOP's direct mail income. Presumably, most of the persons named on the lists are themselves Republicans, but there is no way to know.

The second type of list is the "promotional," and it carries the names of persons who have not contributed to the state party organization but may likely do so. For instance, the organization recently sent a mailing to persons on a list acquired from the National Conservative Political Action Committee. The mailing lost money, raising less in contributor dollars than it cost to send out. But it was regarded as a successful prospecting expedition nonetheless because it generated new contributor names. They will be added to the organization house lists and probably will make enough additional contributions in the future to cover the initial loss and then some.

Regardless of the lists that are used, the message to contributors is much the same: Money should be given either to promote some particular Republican cause, such as Governor Deukmejian's reapportionment measure on last November's ballot, or to fight some supposed Democratic and/or liberal menace, such as Chief Justice Rose Bird, U.S. Senator Alan Cranston or Assemblyman Tom Hayden.

One such mailing, to raise money against Cranston, has generated some controversy among the Republicans who want to run against him in 1986 and will be battling each other for the GOP senatorial nomination next year. The

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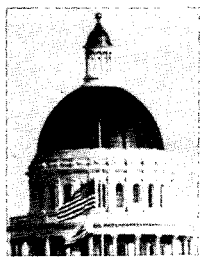

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mailing went out recently under the name of the current party chairman, Los Angeles County Supervisor Mike Antonovich — himself a likely candidate for Cranston's seat.

State Senator Ed Davis and Assemblyman Robert Naylor, who are both seeking the GOP nomination, said it was unfair for Antonovich to use a party mailing as a vehicle to help himself. In a *Los Angeles Times* story May 17th, Davis was quoted as saying "Mike ought to fish or cut bait. The finances of the party should not be used . . . to finance mailings by the party that are thinly disguised U.S. Senate campaign mailers."

The letter, a four-page document, sought contributions to the California Republican Senate Victory Fund and — over the Antonovich signature — carried such lines as, "Here is why I need your help now."

In the same article, *The Times* quoted Antonovich as replying that he had not made a final decision about whether to run for the Senate and that the mailing was a prospecting piece that had been planned at the beginning of this year. It would have been mailed regardless of who was party chairman, he said.

What does the party organization do with the direct-mail money it receives? Last year much of it went to build Republican voter registration in the state. For instance, at one point the state organization offered county central committees a $1 bounty for each newly-registered GOP voter in their areas.

In addition, the party organization conducted a test program to see if it could identify potential Republicans among the state's unregistered voters and get them to sign up. The test, conducted in San Bernardino County, consisted of mailings and follow-up phone calls to unregistered voters. The goal was to see which types of household, income level, etc. were likeliest to respond and register as Republican.

When the test was completed, the organization had a "Republican voter profile" with which to select other likely Republicans from other areas of the state. According to Rico, the profile has changed dramatically over recent years. "The old myth, that Republicans are the upper-middle and upper class, that they are professionals and that they live in expensive homes, is changing," he said. Many still fit that description, he said, but the number of lower and middle-income persons who registered Republican is growing rapidly. "In San Bernardino County they're more conservative than we thought."

As additional evidence of the GOP's relatively new strength at the lower end of the income scale, party officials point to the size of the average contribution they receive. It is, they say, only $22. (Democrats say their average is $18.)

In any case, computer-directed mail has been good for Republicans and some, like Rico, are looking to other technological advances for gains in the future. One possibility lies in the telephone. Last summer the GOP set up a number for Californians to call and express their views to the president. Although no one here can say whether Ronald Reagan heard any of the messages (they were delivered to the White House) some 33,000 residents paid $2 each to express themselves during the months of July, August and September.

The service didn't pay for itself, Rico says, but it set him to thinking of that wonderful day in the future when a person can pick up a phone, express an opinion and then dial in the size of a contribution, the name of the recipient and a credit-card number to be billed for the donation.

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MEXICO'S UNWANTED EXPORT

Sewage pollution threatens Southern California

By DANIEL C. CARSON

It is an immutable law of physics that water flows downhill. It matters not how badly polluted that water may be or that it flows across a national boundary. International law cannot undo what nature hath wrought.

That is at the heart of a long-festering mess plaguing California border communities. They are receiving untreated sewage, including agricultural and industrial pollutants, from fast-growing Tijuana and Mexicali via a pair of rivers that originate in Mexico, cross the border and flow into San Diego and Imperial counties. An array of scientists and public-health officials has repeatedly warned that this continuing pollution of the New River in Imperial County and the Tijuana River in San Diego County poses grave health risks to human beings.

In Imperial County, where the New River flows through the outskirts of Calexico, the county director of health services, Lee Cottrell, has called the stream a "reservoir for numerous diseases." He said tests in 1979 and 1982 found 15 disease-causing viruses, including the types that cause hepatitis and three strains of polio. There were also five disease-causing bacteria. "The health department in Imperial County is not projecting the possibility of a disease outbreak," he says. "We're projecting the probability of a disease outbreak."

Daniel C. Carson is Capitol correspondent for the San Diego Union.

Pesticides

From Calexico, the river flows north into the Salton Sea where the high salt content diminishes some of the bacterial threat. But state scientists have detected unusually high levels of toxaphene and other pesticides in the river water, raising the risk of chemical contamination. "It would be prudent to advertise and post these waters as unacceptable for any fishing for human consumption," said a state report issued last July. A more recent report from an Assembly committee says the New River pollution could force a shutdown of the Salton Sea as an agricultural drain, causing "devastating" statewide economic damage.

In neighboring San Diego County, tales of the Tijuana River are equally grim. David Janssen, the county's assistant chief administrative officer, says limited tests have identified a variety of organisms that can cause human disease. Beaches at Border Field State Park, where the river flows into the ocean, have been closed since March 1983.

But the Tijuana River is only a part of San Diego's Mexican sewage problem. The City of Tijuana also is discharging raw sewage into the ocean at several points just south of the border. Since currents carry the effluent northward, it is causing persistent closures of other San Diego beaches. And as Mexicans increase the water supply to fast-growing Tijuana, the problem is expected to worsen. Not surprisingly, San Diego's business and political establishment suffers cold shivers at the thought of what might happen to the area's $2 billion-a-year tourist industry.

What's being done? Although some pressure is being put on Mexico to clean up its mess, few believe that a full solution will come from there. If the Salton Sea and San Diego's beaches are to

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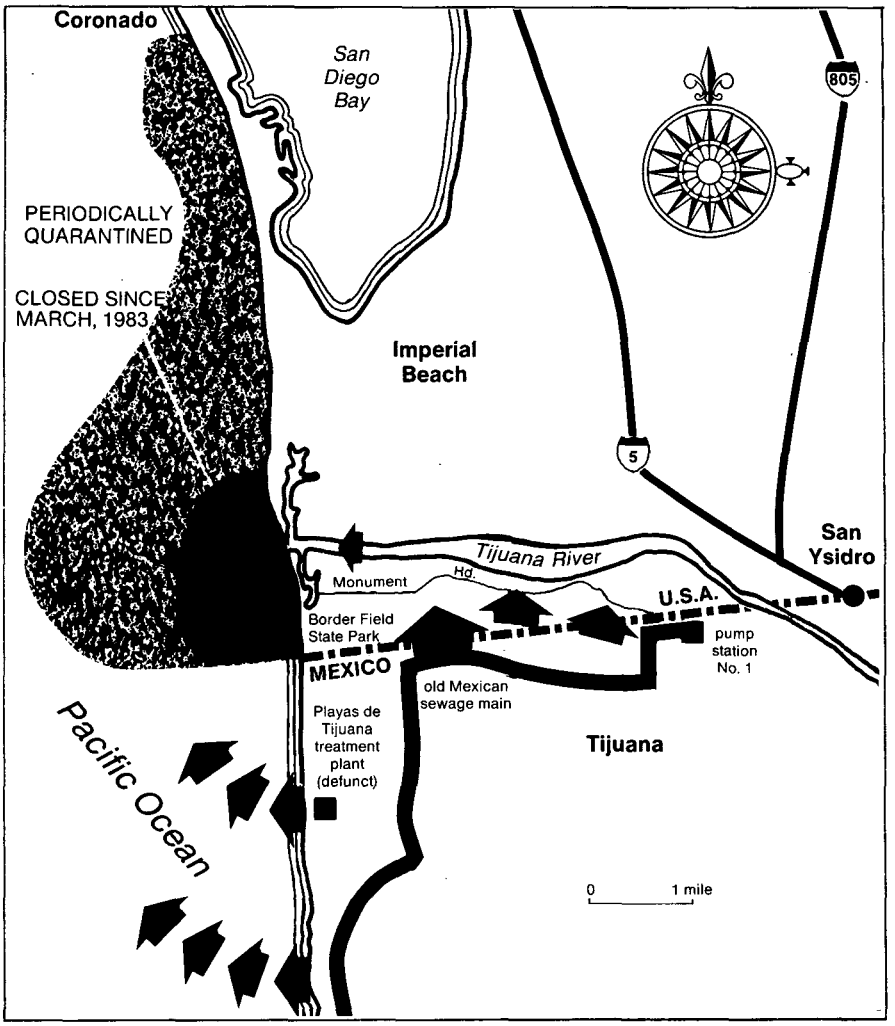
escape serious pollution, it appears that federal and state taxpayers (with an emphasis on state) will have to pick up the tab.

At the federal level, one plan calls for appropriating $32 million to construct a "defensive" system in San Diego to catch raw sewage flowing downhill from Tijuana toward the Tijuana River. The effluent would be piped back to Mexico, untreated, for dumping into a Mexican canal that empties into the ocean at Rosarita Beach, far south of San Diego. The Mexican government has agreed to the diversion and has pledged to build a treatment plant at the end of the canal within a few years.

Meanwhile, U.S. Senator Pete Wilson, the former mayor of San Diego, has joined with U.S. Ambassador to Mexico John Gavin and other federal officials to increase pressure on Mexico for a cleanup. In January Wilson persuaded then-U.S. Treasury Secretary Donald Regan to delay a $46 million loan to Mexico until Mexico agreed to address the pollution problem.

Mexico eventually got the loan after agreeing to build two sewage-treatment plants, one within two years. But many government officials on this side of the border were nonetheless dismayed because the Mexicans simultaneously rejected a U.S. proposal for a bi-national sewage plant in the United States. Since it would be more difficult for Mexico to stall or back out of a bi-national project, some U.S. officials fear that the U.S. has been handed an empty promise.

A little-known agency, the U.S. International Boundary and Water Commission, is exploring a plan to spend $20 million on a sewage-treatment plant in Mexico to deal with agricultural and industrial wastewater and with raw sewage that enter the New River. However, support has not been as great for this project as it has been for funding to deal with contamination in the Tijuana River.



The key to resolving both pollution problems, then, may well rest with the state of California and, more specifically, with the political energies of Assembly Speaker Willie Brown. After months of study by a task force of advisers, and with the backing of border-area legislators, Brown has declared the pollution a statewide problem and has introduced a bill to deal with it.

The measure (AB1012) would appropriate more than $20 million immediately to commence work on the Tijuana River problem and would set up a $150 million bond fund for additional work on Tijuana and New River pollution. Brown's bill easily cleared its first two committee tests in the Assembly and breezed to a 69-0 victory on the Assembly floor in late June. But there are many hurdles to overcome before state government takes on such a heavy financial commitment.

Do border-area officials have the clout to persuade other lawmakers, many of them preoccupied with their own toxic-waste hazards — such as Stringfellow Acid Pits and Kesterson — to look kindly on a measure providing special treatment for San Diego and Imperial counties?

Will the Deukmejian administration, anxious to limit the pace of new public debt and to protect a rainy-day budget reserve, sign or veto AB1012? So far, the governor has been cool toward the bill in his public statements, suggesting that it may be premature until it is clear whether Mexico will make good on promises to address the problem.

The governor also eliminated a $7.5 million appropriation in the state bud-

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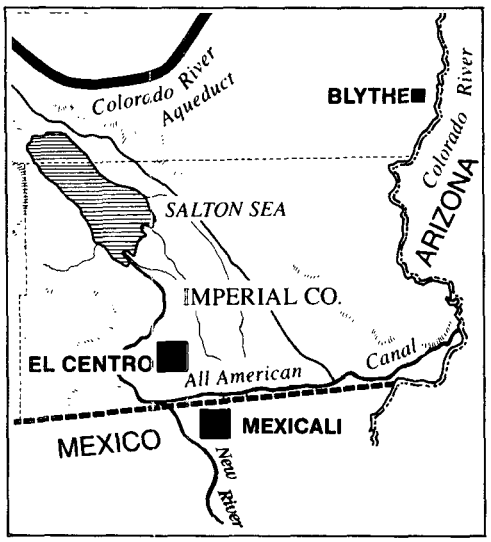

get for the State Water Resources Control Board that was meant to help clean up the Tijuana River. In his veto message, Governor Deukmejian said that the cleanup was an international problem and that the federal government should take the lead in resolving it.

Will voters from Eureka to Blythe be willing to dig into their own pockets, in the form of a major bond issue on the ballot next year, to solve what they may view as a localized problem for border residents? Notably, the last bond issue to be rejected by California voters — Proposition 2 of 1980 — was narrowly targeted to provide $85 million to preserve Lake Tahoe.

And will the political stagnation and in-fighting that has stymied progress previously again rear up to doom a border cleanup? Brown's bill had been in print only a matter of weeks before Congressman Jim Bates, a San Diego Democrat, fired off a letter backing some elements of the speaker's plan but deriding others. "Mexico has committed itself to treating its own sewage. To propose the construction of a primary sewage treatment facility at this time would be premature and would demonstrate a lack of faith in the efforts of the Mexican government," Bates warned San Diego Mayor Roger Hedgecock, a vocal supporter of Brown's legislation.

Tijuana's growth

Supporters of the speaker's position reply that even if Mexican and U.S. officials make good on promises to deal with Tijuana River wastes by building upgraded drains and treatment plants, the new facilities may be quickly overwhelmed by city of Tijuana growth. The flow of sewage from San Diego's cross-border sister is expected to jump sevenfold by the year 2007 as Tijuana's population leaps from the present 1.4 million to 2.7 million. The volume of wastewater could be so great that northward currents still would force closure of San Diego County's fabulous beaches.

And there are unspoken fears that the massive U.S. federal deficit, and Mexico's own financial problems brought on by a worldwide oil glut and fast-paced population growth, will once again cause the promises of action to be broken. The Tijuana River's existing sewage problems, for example, have been aggravated by repeated breakdowns in Mexico's public works system. This lack of faith by Americans in Mexican promises surfaced in an Assembly committee hearing last May.

"I'm not being facetious when I say that if something breaks in Mexico, they paint it white and walk around it," commented Cottrell.

Stated Bill Du Bois, a representative of the California Farm Bureau, "While the United States State Department and the Mexicans are talking, we have self-preservation that is the first order of business. It's up to California to act in self-defense."

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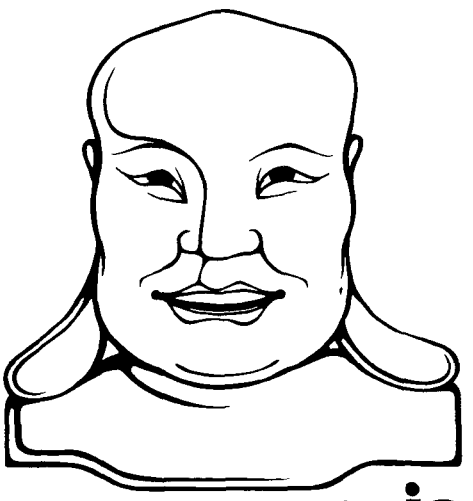

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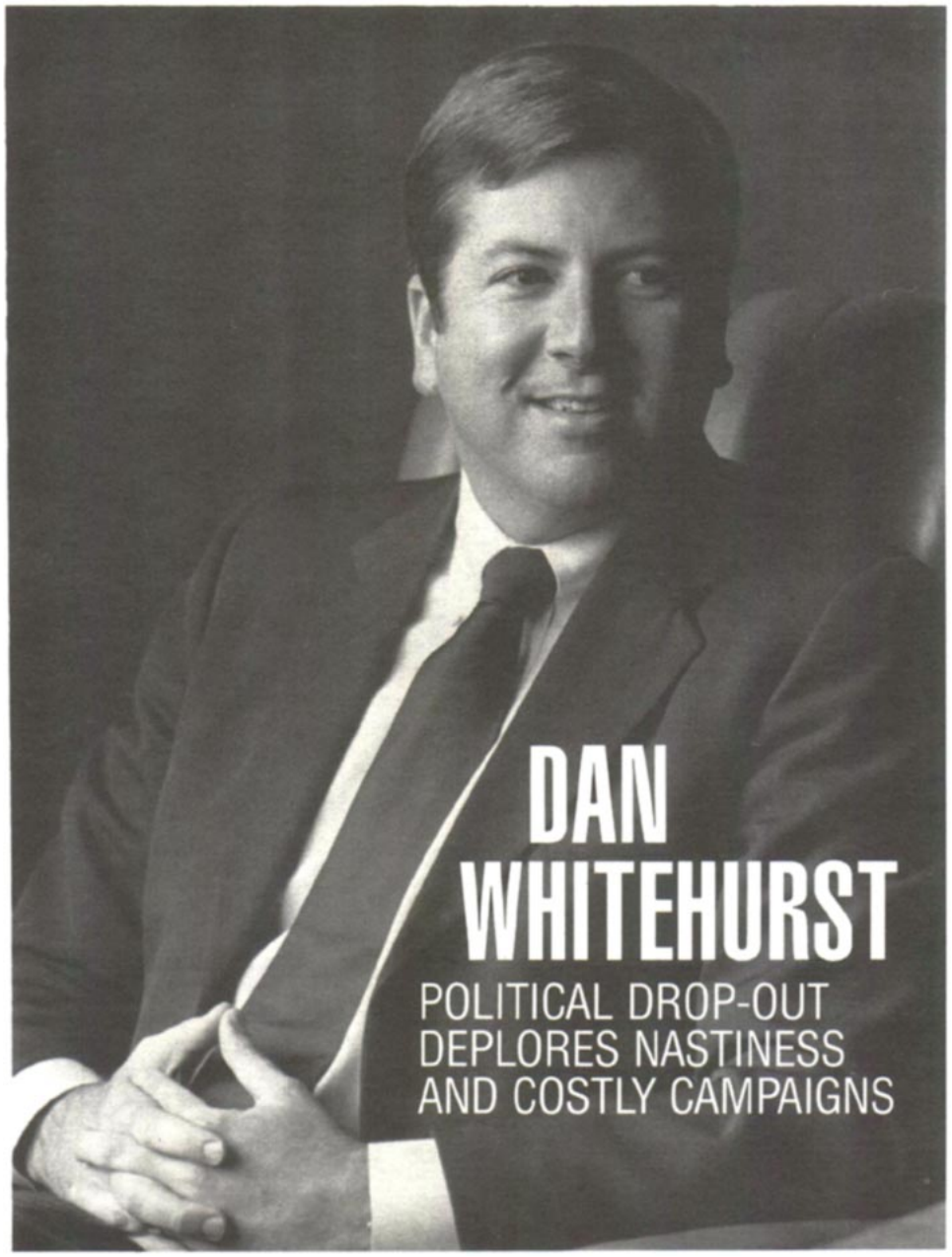

DAN WHITEHURST

POLITICAL DROP-OUT DEPLORES NASTINESS AND COSTLY CAMPAIGNS

Editor's note: When he resigned as mayor of Fresno in January 1985, Dan Whitehurst had served nearly two terms, spanning eight years in office. For several months following his resignation, he taught a class in California politics at Harvard's John F. Kennedy School of Government. Currently, he has started work as senior vice president for Research and Decisions Corporation, a public-policy research and consulting firm in San Francisco.

By DANIEL K. WHITEHURST

I am currently taking a break from public office and thought it might be of interest if I shared the thinking that led me to take a sabbatical from political life.

By way of background, I was in public office for ten years, the last eight as mayor of Fresno and two years before that as a member of the Fresno City Council. I grew up in the San Joaquin Valley and, like a lot of kids who came of age in the 1960s, was inspired to get into politics by President John F. Kennedy. I would describe myself as a moderate Democrat. (Actually, I'm probably one of these "neo-liberals," but it just doesn't seem right to call yourself a neo-liberal — it would be like calling yourself a "yuppie.")

Even though big-city slickers like Johnny Carson enjoy poking fun at Fresno, it's an interesting town and a good place to live. First of all, it's not a small town anymore. Metropolitan Fresno now has a population of about 400,000 people and is the third-fastest growing city in California. In the last few years, the people of Fresno have built a new museum, new football and baseball stadiums, a renovated arts center, a downtown hotel and conference center and an expanded convention-center arena.

Second, it's a diverse city with a good university, a well-regarded arts community and a unique ethnic mix (Armenian/Hispanic/Basque/Asian/Portuguese/Black/Slavic/Oklahoman/you-name-it). Fresno, celebrating its centennial this year, is making the transition from town to city and doing it fairly well.

Anyway, I was elected mayor of my town in 1977 at the age of 28. Perhaps I'm biased, but it seems to me that the job of mayor is a special one in the political world because it not only involves policy-making and management but includes an intense day-to-day relationship with your constituents. Some of the issues you deal with may seem mundane or trivial (zoning, traffic, garbage), but they affect people directly and are important to them. Mayors get to (have to?) live among the people they represent and can see the tangible results of their decisions.

The mayor business was made somewhat less-pleasant by the post-Proposition 13 budget-cutting. Despite that, I enjoyed my time in office. In fact, the only other job I thought I might like better was in the United States Senate — so I ran for that office in 1982. I was in the Democratic primary with former Governor Jerry Brown, Gore Vidal and state Senator Paul Carpenter. Some people thought I was overreaching when I ran for the Senate. I was. We were looking at Jerry's negative rating among Democratic voters and figured that if no one else got into the race, there was a good chance our campaign could catch fire. As it turned out, Vidal and Carpenter jumped in and messed up our "lightning strikes" scenario. But we saw the campaign as a "no lose" proposition because it gave me a chance to introduce myself to the political press and to Democratic activists and contributors around the state.

A tough place to run from

When you're the mayor of Fresno, it's tough to get noticed statewide. Once, a network news reporter contacted me because he heard that Fresno was putting welfare recipients on the bus and shipping them to Arizona. We weren't, but I told him that I'd be happy to talk to him anyway. Another time I was interviewed for a

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prime-time program called "Speak Up, America." The interview went well. To present myself as a progressive, effective mayor, I claimed to be the first mayor in the country to push through comprehensive leisure-suit control legislation. (I was lying.) The program was cancelled before my interview could air.

I did finally have my moment in the sun. I was in my city hall office in Fresno one day last year when a call came in from CBS News in New York. This is it, I figured. My moment has come — they've finally discovered me. "Mr. Mayor," the producer said, "your city has just been rated the least livable city in the United States and we'd like to have you on the 'CBS Morning News' tomorrow to talk about it." Needless to say, this was not precisely the kind of publicity I had in mind — but what the hell. Fresno's rating was covered in *Newsweek*, *Atlantic Monthly*, wire services and on national radio talk shows. It culminated in an appearance on the David Letterman show — he was impressed enough that he asked: "Are you really the mayor?"

The rating thing was a strange experience. Before I became mayor, Fresno had been rated an All-American City. While I was mayor, it was rated the least livable city in the country. And shortly after I left, new ratings came out and Fresno moved way up the list.

So now you know why I decided to take a break from politics. Actually, after a decade in city government, I was ready to move on. The "logical" political move for me to make was to run for Congress or the state Legislature. So I took a serious look at the possibility of running against Republican Congressman Chip Pashayan in the 17th District. I would probably have had a reasonable chance of winning, but after a great deal of reflection I chose not to run. In fact, I decided that the most prudent course of action would be to step out of politics for awhile and return to private life.

For one thing, my family deserved a break from the pace and the demands of public life. Family members get the disadvantages of political life and relatively few of the perquisites. For another thing, I needed to pay some attention to personal finances. If you plan to be in politics in some fashion over a long term, I really think you have to devote some time and energy to financial matters (which is best done when you are not in office). And finally, I just think it's a good idea to bench yourself once in a while. When you're in politics, it's easy to find yourself dealing only with other political people and seeing things only in political terms. The pressure to survive is intense. It can cause you to forget why you got into the business in the first place.

There were some cogent arguments against my taking time off. The principal one was that it may be tough to get back in. Incumbents have an easier time generating visibility, maintaining an organization and, last but not least, raising money. Also, an appropriate opening might not present itself when I'm ready to get back into the game.

A good time to leave

Despite these points, my decision was made easier by this fact: This is not an especially good time to be in politics. The elements of political life — the relative positive and negative aspects of being in office — seem at the moment to be out of balance. This observation is not novel, but I think it bears repeating. The lack of civility in our political process today and the extraordinarily high cost of running for office make elective politics less attractive as a vehicle for public service.

Public office has always been difficult and thankless and will always require dealing with resistance and criticism. Hate mail, threatening calls, hostile audiences — these have always come with the territory of being in office (especially for mayors). But these are matters of degree, and it seems now that the intensity of the assault on elected officials, in terms of personal abuse and loss of privacy, has gone beyond the acceptable level.

I sense a growing cynicism, not just among civilians, but among political people themselves. They don't like the current atmosphere but feel powerless to change it. As political professionals, they are fully prepared to play hardball when they have to, but they don't want to play it all the time.

Here is a list of some of those negative factors:

- the proliferation of recall attempts against elected officials based not on official misconduct but on disagreement over a policy decision;
- the increasing exposure of elected officials to personal liability for decisions made in good faith but later determined by a court to have violated someone's rights;
- the tendency of some reporters to assume the worst about public officials (it is deemed unprofessional for reporters to give a politician the benefit of the doubt, even if the person has an established track record for candor and integrity);
- the superficiality of television news reporting and the pressure on reporters to bring in easy-to-understand stories with entertainment value. This makes the media vulnerable to manipulation by demagogues and cheap-shot artists;
- the erosion of simple courtesy and good manners in much of our political discourse — politicians are considered fair game for insults and personal attack;
- the increased sophistication and militancy of interest groups (particularly single-issue constituencies), including the targeting of legislators who oppose them on key legislation;
- the use of smear tactics and misleading charges in campaigns, particularly in "hit-piece mailers" and 30-second television spots.

These things all poison the tone of our political process. Politicians have to devote so much time and energy to avoiding the landmines that they have little opportunity to address real issues in a constructive way.

Perhaps the most serious threat, however, to our political system in California is the ungodly cost of running for office in the first place. Most candidates I know would like to be out meeting with people, presenting their credentials, talking about policy and so on. Unfortunately, the principal task of the candidate today is raising

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money. The candidate's message is sent to the voters by professionals through paid media. "Pressing the flesh" has given way to "dialing for dollars."

Too much money-raising

In evaluating a possible run for Congress, we figured that I should be prepared to raise $400,000 to $500,000 — more if there were a contested primary. We also figured that if I were fortunate enough to win, I should be ready to turn around right after the election and raise another half-million to fend off a Republican challenge in 1986.

Frankly, the prospect of having to raise a million dollars between 1984 and 1987 struck me as a rather unpleasant circumstance that I should not willingly inflict upon myself, my family and my supporters. It would be like having a thousand-dollar-a-day habit. The reality is that when you have to raise that kind of money, you simply cannot limit your solicitation to disinterested, civic-minded people who wish only to promote good government. You have to approach moneyed interests who have a direct stake in pending or potential legislation. Given the huge sums you have to raise, even the most scrupulous legislator would find it difficult to ignore the fund-raising implications of positions he or she takes on legislation.

I am not arguing that we should take the politics out of politics. Indeed, our system was designed to assure that politics would influence legislation. The Founding Fathers, Madison in particular, believed that the open clash of pluralistic interests would prevent tyranny. But again, this is a matter of degree. When legislators are vying for a particular committee assignment, not because of their interest in the committee's subject matter but because they see it as a "money" or "juice" committee that will generate large contributions, we've allowed the system to get out of whack.

These comments should not be interpreted as being critical of politicians or contributors. The system is the problem. The elected officials and contributors are as much victims of the system as they are anything else. The contributors feel that they are being "squeezed" by the elected folks. The politicians feel that they are only acting out of self-preservation.

In the face of this, we should be grateful that so many good, talented, dedicated people are willing to put up with the hazards of public life. But we should be aware of the unhealthful pressures these people are being subjected to, and also the fact that many other capable people are discouraged from seeking public office because of what appears to be (and is) an unsavory environment.

Campaign finance reform should be elevated on our public agenda. A number of public-interest groups and public officials are working on the subject. Their recommendations should be given serious study and consideration. Bringing campaign spending under control is one of the best things we could do to create a healthier political climate in California.

But there is a larger problem. The negative, indeed hostile, feeling that many Californians seem to have toward politics and politicians is destructive of successful democracy. Healthy skepticism (aka, eternal vigilance) is one thing; however, a prevailing anti-government attitude can become a self-fulfilling prophecy. Accusers and critics are given greater credence than people who are duly elected. Good people are discouraged from entering public life. Those who are in it become the captives of the popularity polls, avoiding the tough issues and equivocating on the ones they can't avoid. Ultimately, our confidence in the system itself is eroded.

Those of us in politics have to accept some responsibility for the existence of this attitude. We have waged vitriolic, deceptive campaigns. The low point in this regard may have been the recent campaigns on the reapportionment and campaign finance initiatives, in which we saw "politicians trashing themselves," as Bill Endicott of the *The Los Angeles Times* put it. Both sides were trying to win public support by saying that "the politicians" were supporting the other side.

Democracy is still a new and fragile experiment. It cannot survive in a society that detests politics and the people who practice it. I really don't know how to counteract this attitude. We need to remind ourselves that in a democratic system, government is us. Our goal should be to establish a climate in which our most talented and virtuous people are encouraged to serve in public office. This of course means assigning a great deal of prestige to public office and allowing significant latitude to our representatives so that they will feel free to exercise their best judgment. In any event, we need to rebuild enthusiasm for the American experiment in self-governance. If we do not, our democracy will be weakened in ways that we may not be able to imagine today.

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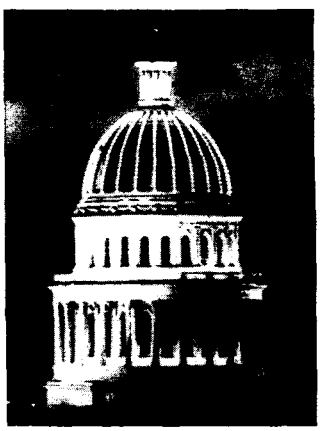

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Hard times befall once-influential groups

By RICHARD BERGHOLZ

Somehow it seemed a little sad to longtime watchers of California politics to ponder what happened at the recent convention of the California Democratic Council. It made you wonder, once again, if grassroots counts for anything anymore with major political parties. Maybe the computer, the slick mailing list and the flash-and-dash of today's campaign style has relegated the volunteer organization to the buggywhip category.

It's not just confined to the Democratic Party. The CDC's counterpart — the California Republican Assembly — is still in business but its endorsement in a tight primary race is not considered truly crucial. There was a time, years ago, when it was.

Both the CRA and the CDC have two common assets: They both make pre-primary endorsements and thus help to determine who gets the party's nomination, and they both tend to represent the ideological extremes — CDC on the left and CRA on the right.

Consider the CDC:

At first glance, the CDC convention looked like the showcase of a vital, with-it organization because it was able to present South African Bishop Desmond Tutu as its speaker. But sadly, after the Nobel Prize winner had made his anti-apartheid speech and moved on, the CDC convention dissolved almost into irrelevancy. Outgoing President Lia Belli and many other delegates left before the convention's business — the election of officers — was held. The new CDC president, Bob Farran, principal of a school for the handicapped in Pomona, said he and the remaining loyalists were sorely distressed at their leaving, and he gave a good news/bad news account. The bad news is that there were only 191 delegates to start with, representing only 41 affiliated clubs with probably as few as 2000 members. That's a sharp contrast from the 70,000 or more members in CDC's heyday during the early 1960s. The good news, he said, is that there are about 250 Democratic clubs throughout the state now that need only to be persuaded to align themselves with CDC to start the organization on the comeback trail.

An unruly group

In the 32 years of its existence CDC has been, at times, at least, a lot of fun for members and observers alike. Coming out of Adlai Stevenson's 1952 campaign, it was a lively, liberal and sometimes wildly unruly political organization. When it started, the average grassroot Democrat had precious little to say about the party or its fortunes or the things it stood for. When Sam Yorty was refused a CDC endorsement in the 1956 U.S. Senate race, he complained the process was "wired, stacked, rigged and packed." This was a laugh because in some instances CDC was so badly organized it couldn't rig an endorsement for God, Motherhood, or the Fourth of July.

John F. Kennedy, Hubert Humphrey and Stuart Symington thought enough of CDC to attend its 1960 convention despite the fact that the group had by-laws prohibiting endorsements in presidential primaries. Members were permitted — even encouraged — to speak their minds on all manner of issues. Some were so bold as to suggest the U.S. ought to extend diplomatic recognition to the mainland Chinese, abolish Red-baiting House and Senate committees and oppose loyalty oaths for teachers. While those subjects don't sound so revolutionary today, it was shocking stuff during the McCarthy years.

By the time the Vietnam War was building up, CDC had elected as its leader Simon Casady — a blunt, liberal El Cajon newspaper publisher. He didn't endear himself to President Lyndon Johnson, always thin-skinned, by opposing the war build-up and by saying anti-war protesters who burned their draft cards were demonstrating courage.

Richard Bergholz, a retired political writer for the Los Angeles Times, *is a frequent contributor to the* Journal.

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The president called on then-Governor Pat Brown to rein in this rambunctious CDC. And Brown, getting ready to run for re-election, felt he needed to get himself and his party back toward the center of the political spectrum. So Brown's mission was to dump Casady. First he asked him to resign. Casady refused. Two months later, at Brown's urging, CDC directors voted 29-18 to impeach Casady. But the attempt fell short of the required two-thirds margin. Ouster negotiations between Casady and Brown continued, and the CDC president agreed to resign if delegates to the 1966 state convention voted for a "no confidence" motion. They did, and Casady quit. But it was a tumultuous, emotional scene, complete with delegate walkouts, personal abuse directed at Brown and, horror of horrors, at Alan Cranston, a full-fledged liberal who had been the founding president and patron saint of CDC.

Reminiscing about those turbulent events, Brown said recently he feels he made a mistake forcing Casady out. "I was against the war in Vietnam, too, but I felt that as a Democratic governor, I had to support Johnson when he asked me to."

The downfall

Some say Casady's ouster was the beginning of CDC's downfall. More and more Democratic officeholders seemed embarrassed by CDC's outspoken liberalism. Conservative Democrats who had backed Casady's ouster split off into a loose federation of clubs which long since has vanished as a political force.

But the liberals stayed and, as the Vietnam War opposition grew, sparked the formation of a so-called "peace slate" of delegates to the 1968 national convention. CDC still couldn't officially endorse, but it voted to "support" the slate now pledged to Eugene McCarthy. Robert F. Kennedy beat the "peace slate," but the CDC impact had been felt.

In 1972 the rules were changed to permit presidential primary endorsements. But for the past four presidential elections, the CDC endorsing process hasn't counted for much. For instance, George McGovern was denied the nod in 1972 because he failed to reach the required 60 percent vote. Fred Harris of Oklahoma was the CDC choice in 1976 but was never a factor in the race. In 1980 Ted Kennedy got 59.76 of the endorsement vote, and in 1984 Walter Mondale got the most votes for endorsement but still not enough to reach 60 percent.

As its influence was waning, so was its membership. This was a matter of some embarrassment to its leader who repeatedly had to fend off reporters' questions about actual membership figures. New CDC President Farran candidly gives figures to illustrate what he says is "an all-time low."

R. Fred Kugler, CDC historian and a veteran of the group's ups and downs, said the national turn to conservatism in politics has had a lot to do with CDC's decline. A resurgence of liberalism is possible, he said, but CDC probably "will remain a very small political organization with lessened impact." He and former CDC President Wallace Albertson recall fondly the days when CDC was a large and vibrant band of liberals out to change the course of history and politics. But now, Albertson says, CDC "is practically moribund."

California Republican Assembly

If CDC started the downhill slide by its "extremist" views, consider what has happened to its counterpart — the California Republican Assembly. This group, never as large as the CDC in its better days, has gone through some tumultuous times of its own.

CRA began a half-century ago in the days when a candidate could file on both major party tickets and thus hide his actual party affiliation. Those were the days of cross-filing, when Republicans were a distinct minority but were able to maintain a stranglehold on partisan offices. Those were the days when such GOP giants as Earl Warren and Thomas H. Kuchel, usually regarded as party moderates, had to prove their Republican credentials every primary in order to win. One of the ways they did it was to secure the backing of the CRA, the only major organization that made endorsements in Republican races. In effect, the CRA through the years was able to grant GOP respectability through its endorsements.

But this regularly inflicted great pain on the true-blue conservatives, and as the Goldwater-Reagan view began to catch on, the fight for CRA control grew increasingly bitter. The ultra-right John Birch Society also was gaining influence in the party, and at the 1963 CRA convention there were charges that the Birchers secretly were trying to capture the once-moderate group. Bill Nelligan of San Francisco, one of the rare labor union men ever to seek CRA office, won the presidency, but it was such a raucous and bitter battle that 35 local chapters withdrew and formed a new organization, United Republicans of California (UROC). This faction kept moving even farther to the right. Even Ronald Reagan was too liberal for its tastes, and it virtually disappeared.

Deprived of victory in 1963, the CRA conservatives were not to be denied a year later. Despite all the parliamentary maneuvering they could muster, old-line CRA leaders were shouted out of office, and hard-liners took over. This took place despite the joint appeal of Goldwater and Nelson Rockefeller, rival presidential candidates who addressed the delegates, for no endorsement in the interests of CRA — and Republican — unity. Nelligan, bemoaning the historic turn to the right, said, "The fanatics of the Birch

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variety have fastened their fangs in the Republican Party's flanks and are hanging on like grim death." Colorful language; questionable accuracy.

And so there were those who predicted CRA's days were over. But along came Reagan and as long as his name and influence were around, there was no doubt where CRA would cast its fate. But the organization had a tough time making choices among conservatives elsewhere on the ballot. In 1982, for instance, CRA had to decide between two bona fide right-wingers — Congressmen Barry Goldwater Jr. and Robert K. Dornan — in the U.S. Senate primary. CRA went with Dornan, who then lost badly in the primary. And it had to choose between Mike Curb and George Deukmejian in the gubernatorial race. Curb got the most votes, but not enough for the required two-thirds margin. And then Curb lost in the primary. So, as with the CDC, CRA's power to endorse wasn't to have a perceptible influence on the outcome of a major race.

Barbara Rathbun of Belmont, the current CRA leader, was a Deukmejian supporter in that 1982 fight and she was rewarded with an appointment as deputy director for external affairs for the California Department of Parks and Recreation. She said CRA membership has fluctuated over the years from perhaps a high of 20,000 to a low of 6000. It's now about 10,000, she says.

The organization has weakened not the slightest in its adherence to right-wing causes. It stands opposed to abortion under any conditions and opposed the Equal Rights Amendment even when the national party was for it. It also favors U.S. withdrawal from the United Nations.

Now that UROC is out of the picture, "There is nothing, no group, that is to the right of us now," she said.

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S.A.F.E. B.I.D.C.O.

Profit means success for state lending agency

By MARY ELLEN LEARY

A curious California spin-off from the energy crunch of the 1970s is a lilliputian lending agency — part government, part private enterprise — that has astonished its legislative creators this year by becoming a success. It is turning a profit. This venture has an overpowering name: State Assistance Fund for Energy, California Business and Industrial Development Corporation. It is better known by its acronym: SAFE-BIDCO.

SAFE-BIDCO is a lending agency that uses state money to bankroll small-scale, innovative energy conservation efforts and new, small, alternative-energy developments. The idea is to supplant use of conventional fuels, if only to a modest degree. It was created because today's bankers scarcely can find time for diminutive proposals that need less than a half-million dollars. In addition, genuinely new engineering concepts are often beyond a loan officer's grasp. Besides, a small business usually needs, in order to get rolling, a loan pay-off schedule that runs five, eight or ten years. Banks consider three years a long-term loan. These requirements represent serious financial hurdles for many creative companies.

Mary Ellen Leary is a freelance writer from Piedmont.

There are 11 BIDCOs in California but only SAFE-BIDCO is state-owned, non-profit and designed exclusively to advance energy businesses. All the others are private, for-profit lending agencies that support small business in every field. They, too, are under state banking department supervision and depend on the federal Small Business Administration guarantee of 90 percent of their loans. But by selling that guaranteed portion, they increase funds available for lending. The loans are sold to other small lenders, like small pension funds, mutual funds and credit unions.

Many states have industrial or business-support agencies, a few of them lending concerns, but BIDCOs are unique to California because of state banking supervision and their use of SBA money.

California has a half-dozen other governmental structures, especially in energy and pollution, supportive of private businesses as well. But they lean largely on tax-exempt mortgage bonds, not functioning as a direct lender like SAFE-BIDCO.

High-tech ideas

As the Legislature recognized when it authorized SAFE-BIDCO in 1981, almost half the new small businesses being formed in the U.S. are based on high-tech innovative ideas, and it is in small business, employing 20 persons or less, in California as in the nation, that the greatest job creation

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is expected over the next decade. In fact, that's where job growth is now occurring, as large companies curtail staff or move production overseas.

In the anxious years of the oil shortage, when California turned toward solar, wind, hydro, geothermal and every other conceivable power alternative, the Senate Select Committee on Small Business Enterprises, headed by Democratic President pro Tem David Roberti of Hollywood, grappled with the difficulty of raising money for start-up firms which might enrich California energy resources, if only they could bring their products on-line.

The Legislature hit upon a creative mix of governmental functions (state and federal) and private business practices. Thus was SAFE-BIDCO born, and it has since loaned money to small enterprises in a diverse array of energy-related fields.

In the area of hydro power, for instance, it helped one firm provide electricity to 300 homes by the ingenious method of tapping into the gravity fall within the existing urban water system in Orange County, operated by the Metropolitan Water District of Southern California. It also funded a small company of energy-savers that monitors microprocessors at as many as 15 different firms in Los Angeles and was able to save energy by correcting schedules, responding to temperature changes or altering work programs by electronic command. It helped yet another firm that had devised a novel window screen which tempers summer heat without reducing visibility and retains interior heat in winter. It granted a loan to a Santa Maria insulation company, allowing it to expand its work-force from two to 11, and helped a Petaluma company that is reaching into the international greenhouse market with a novel heating plan that speeds growth by applying heat to the root zone. Another funded venture designs waste-burning boilers for hospitals to eliminate the cost of having hazardous wastes hauled away.

SAFE-BIDCO may not invest in a firm. Its loans go for specific machinery, or to expand a business or to adapt equipment in a way that saves or develops energy. Thus it is not a tax-haven, for it does not lead investors into direct participation in a firm's profit and loss. Rather, it offers investors — always through financial institutions which serve as middlemen — the chance to buy up the SBA-guaranteed 90 percent portions of the loan — a no-risk commodity that is highly attractive in the market. What SAFE-BIDCO risks is the state's 10 percent of each loan, enough to compel vigilance in analyzing the potential for some product. New businesses, lacking management or sales experience, are turned down, and records show eight of nine firms asking SAFE-BIDCO help get rejected.

Success factors

Four factors were involved in SAFE-BIDCO's creation and in its record of success: a one-time-only commitment of state money to get SAFE-BIDCO going; continuing oversight by the state banking department; a link with the federal Small Business Administration which approves each final loan so that 90 percent of all loans have SBA guarantee and thus become desirable for sale to investors; and a business-like operation, careful to eye loan applicants with a wary concern for the bottom line. SAFE-BIDCO also has its own technical consultants to analyze proposals from an engineering point of view. Those who incubated the system glow at the first modest black ink to show up when the agency's books were balanced April 30th: $19,000.

But that understates the return so far on the Legislature's stake of $2.5 million for loans and $750,000 for operating funds. Through June, SAFE-BIDCO had made 34 loans (with another 15 in the works). In addition, the agency was able to loan substantially more than the $2.5 million by selling the 90 percent share of each loan that is guaranteed by the SBA. For instance on a loan of $500,000, $450,000 falls under SBA's 90 percent umbrella. SAFE-BIDCO can then sell the SBA portion to some small lender — like the University of Indiana Employees Credit Union — and have another $450,000 to loan out while retaining the original $500,000 sum as part of its portfolio. By so doing, SAFE-BIDCO has been able to expand its portfolio to about $6 million in currently-outstanding loans. It has repaid the state $697,000 in both principal and interest and has a loan-loss reserve set aside to cushion misfortune. So far, three loans have raised doubts; one is in the courts and a second is likely to require the SBA to cover its 90 percent. But even after deducting $37,000 for their own 10 percent share of loan loss, SAFE-BIDCO was able to show its $19,000 "profit."

So far the Legislature and the governor have allowed returns of principal and interest to accumulate in SAFE-BIDCO's account; not munificent but another $447,000 to use for lending. SAFE-BIDCO, however, does operate under banking department and federal SBA constraints. For instance, no loan may exceed a half million dollars; loans are restricted to business that has already been rejected in the financial world (at least one turn-down necessary before SAFE-BIDCO considers help). Appropriately, it is described

One loan that is working

One example of SAFE-BIDCO rushing in where other lenders fear to tread is Ross Burgess' small-scale hydro plant near Ukiah. Since before the turn of the century, Burgess' family has operated similar plants in the Dobbins Creek drainage area — a series of tributaries that feed the Eel River in Northern California. The plants — small turbines that generate electricity when creek water is diverted through a type of water wheel — were built for domestic use only. Burgess himself had such a plant in 1957 to provide electricity for his home, but when Pacific Gas and Electric installed a nearby line, he abandoned his plant in favor of a more adequate power supply from PG&E. His grandmother, 93-year-old Zenia Burgess, kept her eight-kilowatt plant going, however, and as a hobby, Ross Burgess tracked water flows and electrical potential at her site. He found that by using the stream during the 280 days a year when the water flow was satisfactory (about two cubic feet per second), he could generate enough energy to sell back to the utility. That made him decide to construct a more sophisticated version of his grandmother's plant on Bluford Creek, an Eel tributary located in rugged, mountainous terrain.

After gaining clearance from the California Energy Commission, state Public Utilities Commission and local agencies, Burgess persuaded PG&E to buy all the energy he could produce — about 1250 kilowatts per hour. The problem was borrowing enough money to complete the project. But with capitalization spread over 15 years, no bank was interested in this kind of long-range plan.

Burgess turned to SAFE-BIDCO, which loaned him $450,000 to construct his plant. "It's a perfect example of how SAFE-BIDCO fits into California's economy," says Mark Braley, SAFE-BIDCO's president. "I expect more hydro developers will come knocking on our door."

— Mary Ellen Leary

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as "the lender of last resort."

Where SAFE-BIDCO makes its margin of profit is in the fees and points accompanying loans and in the interest-rate spread it enjoys. The $2.5 million originally committed must be repaid to the state by SAFE-BIDCO at six percent over 20 years. The borrower, however, pays SAFE-BIDCO two or 2.5 percent above the market rate in interest. The advantage for the borrower is the longer term allowed for repayment and the flexibility in adjusting to slack early years.

"SAFE-BIDCO is unique," says SAFE-BIDCO President Mark Braly. "It is the only existing state-funded set-up working with SBA, and it has sold the idea that BIDCOs fill a need." In filling that need during fiscal 1984, all 11 BIDCOs made 151 loans, for a total of $33 million, according to the SBA. In the first six months of fiscal 1985 they made 84 more loans, for $18 million. Future growth, however, could depend on the tangled federal budget process, for congressional budget cuts may affect the SBA's lending authority or reduce its guarantee from 90 percent to 80 or 75 percent. Although these cuts would not put BIDCOs — including SAFE-BIDCO — out of business, they could severely curtail growth. In the meantime, California's BIDCOs continue to enjoy the confidence of SBA officials.

The small volume of business already troubles Lloyd Forrest, present board member representing the Business, Transportation and Housing Agency. But David Ackerman, chief deputy at that agency and his predecessor on the SAFE-BIDCO board, says, "In all honesty, this is a small drop in a large pond. It is too small to have a major impact on the alternate energy field. But it fills a critical role in fostering new ideas and supporting small business."

Headquarters for this avant garde enterprise is in Old Sacramento, in the pleasantly refurbished, brick-walled structure at 1014 Second Street — the 130-year-old Adams Express Building, once a terminus for the Pony Express. Braly considers this a nice link-up between adventurous ideas of the past and adventurous ideas of the future, though he did not opt for this site initially. SAFE-BIDCO had a painful formative period, punctuated by delayed appointments, a long-time search for staff and a devastating fire at their original "N" Street address. A safe protected loan documents, but it proved necessary to move to the third floor of this historic Old Sacramento building.

"Two things seem special about California's BIDCOs," says Dan Gibb, Washington chief, financial institutions branch of the SBA. "One is that the state really wanted them. And they overcame the mismatch between scientists and bankers. But BIDCOs can keep technical advisers at hand and they are open to new ideas. They have the financial judgment, also, to separate out unsound ventures before turning to SBA, which in turn must scrutinize each loan."

"Public confidence in government's ability to get things done is pretty low right now," says Braly. "People are disillusioned about bureaucracy. We are state created and state funded but we operate like a private business, without state interference.

"What we have done," he says, "is link a state policy objective — ours is to encourage small business and to foster renewable energy — with a normal business approach to lending. We couldn't call our operation successful until we showed that state money isn't going down a hole but is making businesses productive. Their earnings permit the pay-back of loans. We now have $19,000 above our operating costs. That will grow."

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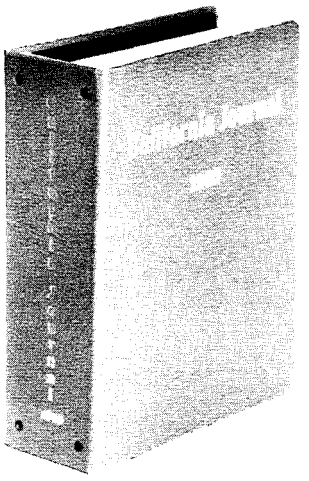
Vol. XV (January-December) 1984



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$30,000,000

California Health Facilities Authority
Floating Rate Monthly Demand Revenue Bonds
(Hospital Equipment Loan Program), 1984 Series A

Dated: Date of Initial Issuance
Due: December 1, 1991
Initial Interest Rate: 5.90%
Price: 100%

Payment of the principal of and interest on the Bonds will be insured by an insurance policy to be issued by
MUNICIPAL BOND INSURANCE ASSOCIATION
simultaneously with the delivery of the Bonds, as described herein.

If Bonds delivered to the Remarketing Agent or the Trustee by a registered owner cannot be resold by the Remarketing Agent, such Bonds will be purchased pursuant to the Standby Purchase Agreement by and among the Authority, the Trustee and
THE FUJI BANK, LIMITED, LOS ANGELES AGENCY.

The Bonds are issued for the purpose of enabling the Authority to make loans to public and private nonprofit hospitals and other public and private nonprofit health institutions located in the State of California in order to finance, refinance or provide reimbursement to the health institutions for the cost of equipment and capital improvements, to deposit moneys in a debt service reserve fund and to pay costs of issuing and insuring the Bonds, as more fully described herein.

The Bonds are limited obligations of the Authority payable solely from Loan Repayments to be made by Health Institutions pursuant to Loan Agreements and, further, from the Funds created by the indenture and investment earnings thereon. The Bonds shall not be deemed to constitute a debt or liability of the State of California or of any political subdivision thereof or a pledge of the faith and credit of the State of California or any such political subdivision, other than the Authority, but shall be payable solely from the funds provided therefor. Neither the State of California nor the Authority shall be obligated to pay the principal of the Bonds, or the interest thereon, except from the funds described above, and neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State of California or any political subdivision thereof to levy or pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Authority has no taxing power.

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$70,000,000

California Health Facilities Authority
Floating Rate Weekly Demand Revenue Bonds
(Pooled Loan Program), 1985 Series A

Dated: Date of Initial Issuance
Due: May 1, 1995
Initial Interest Rate: 5.25%
Price: 100%

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(A review of top stories during the past 30 days)

LEGISLATURE PASSES $35.2 BILLION BUDGET

(June 13th): Two days before a constitutional deadline, state lawmakers passed and sent to the governor a $35.2 billion state budget. The vote on the budget bill was 54-26 in the Assembly and 33-6 in the Senate. The most controversial portions of the 1985-86 budget dealt not with spending money but with an anti-apartheid statement and what most legislators thought was the absence of stricter anti-abortion language (see item below). Overall, the budget called for spending 10.6 percent ($3.3 billion) more than the current budget, with increases for education, health and welfare, environmental programs and state employee compensation.

BUDGET ERROR COSTS FAMILY-PLANNING CLINICS

(June 20th): Democratic budget writers discovered that a clerical error inadvertently allowed anti-abortion language to remain in the 1985-86 budget. The language prevents state family-planning funds from going to any agency or group that "performs, promotes or advertises abortions" or that gains financially from referrals for abortion services. Those restrictions had been included in the Senate's version of the budget but removed by the joint Assembly-Senate committee before the budget was passed by each house and sent to the governor. Most Democrats called upon Governor Deukmejian to blue-line the language, while most Republicans said he should allow it to remain. (The governor did not veto the language. See item below.)

KIRK WEST TO HEAD STATE CHAMBER

(June 21st): Kirk West, head of the Business, Transportation and Housing Agency, resigned his cabinet position to become president of the State Chamber of Commerce, effective September 1st. West, 48, came to his post in January 1983 from the California Taxpayers Association, where he served as executive vice president. He also served as deputy state controller under Houston Flournoy. West succeeds John Hay, who headed the chamber since 1967.

REGENTS REJECT DIVESTMENT

(June 21st): University of California Regents voted not to sell university assets invested in corporations doing business in South Africa. The vote marked a defeat for Assembly Speaker Willie Brown, a regent, who had proposed the divestment. Regents approved instead a proposal by UC President David Gardner that establishes an advisory committee to review South African-linked investments. Governor Deukmejian, also a regent, voted against the Brown proposal and for the Gardner plan.

TOXICS PROPOSAL REJECTED

(June 27th): With Democrats calling it "well-intended but seriously flawed," the Democratic-controlled Assembly voted 46-31 to reject Governor Deukmejian's plan to consolidate the state's toxic-waste programs. Although members of his own administration admitted that the proposal contained serious drafting errors, the governor said it's defeat was the result of "irresponsible partisanship." The plan, which the Legislature had to accept or reject *in toto*, was meant to set up a Department of Waste Management to take over programs now administered by 12 agencies. Deukmejian said he would resubmit it at a later date.

GOVERNOR SIGNS BUDGET

(June 28th): After using his veto power to cut $501 million worth of appropriations, Governor Deukmejian signed the 1985-86 budget. Among the items blue penciled was an anti-apartheid statement that required state pension funds to begin selling off holdings in companies doing business with South Africa. However, the governor left in anti-abortion language (see above item). (On July 11th, Planned Parenthood, one of the affected family-planning groups, obtained a court order blocking, temporarily at least, enforcing the provision.) Among legislative increases cut back by the governor were those for mental health, AIDS research, child care and community colleges.

JUSTICE KAUS RESIGNS

(July 1st): Citing family committments, state Supreme Court Justice Otto Kaus announced his resignation from the Court, effective October 16th. Kaus, a moderate appointed to the high tribunal by former Governor Jerry Brown in July 1981, was confirmed for an eight-year term in 1982. His resignation gives Governor Deukmejian an unexpected appointment only months before the controversial reconfirmation election of Chief Justice Rose Bird and four of her colleagues.

CSEA, STATE REACH AGREEMENT

(July 2nd): The California State Employees Association reached agreement with the Deukmejian administration on a two-year contract for 6 percent wage increases in 1985-86 and 5 percent in 1986-87. The accord affected about 76,000 civil service workers in eight CSEA bargaining units. Negotiations with other unions, representing about 45,000 more state employees, continue. Included in the agreement was an additional 2.5 percent "salary adjustment" for 30,000 clerical employees in Bargaining Unit 4, most of whom are women. Deukmejian gave employees 1 percent more than he intended but received an election-year, no-strike clause in return.

ROOS PROFIT FROM MORIARTY DEAL

(July 6th): According to *The Los Angeles Times*, Assembly Majority Leader Mike Roos of Los Angles collected a $50,000 profit on a condominium project developed by W. Patrick Moriarty — the embroiled fireworks tycoon who has pleaded guilty to federal racketeering charges and is now cooperating with a federal grand jury. Roos made money on the investment even though the project itself was a financial disaster, *The Times* reported. Roos collected his profit in 1981, only days after lobbying for and voting for a controversial, Moriarty-sponsored fireworks bill. The measure narrowly cleared the Legislature but was vetoed by then-Governor Jerry Brown. In a related story, Moriarty testified to a grand jury that he had, as had been reported in recent months, supplied prostitutes to politicians.

— A.G. Block

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ROLL CALL

ASSEMBLY

STATE BUDGET

SB 150 (Alquist). Appropriates $35.2 billion for the support of state government for 1985-86. Contains 7.5 percent pay increase for state employees, 5.7 percent increase for welfare recipients, restricts Medi-Cal abortions and bans new state investments in companies doing business with South Africa. Passed 54-26.

DEMOCRATS FOR: Agnos, Alatorre, Areias, Bane, Bates, Bronzan, Willie Brown, Calderon, Campbell, Chacon, Clute, Condit, Connelly, Cortese, Costa, Davis, Duffy, Eaves, Elder, Farr, Hannigan, Harris, Hauser, Hayden, Hughes, Isenberg, Johnston, Katz, Killea, Klehs, Margolin, McAlister, Molina, Moore, O'Connell, Papan, Peace, Roos, Sher, Tanner, Tucker, Vasconcellos, Vicencia, Maxine Waters, Norman Waters.

REPUBLICANS FOR: Baker, Felando, Frazee, Hill, Mojonnier, Naylor, Nolan, Statham, Stirling.

DEMOCRATS AGAINST: Floyd, Robinson.

REPUBLICANS AGAINST: Allen, Bader, Bradley, Dennis Brown, Ferguson, Filante, Frizzelle, Grisham, Herger, Johnson, Jones, Kelley, Konnyu, La Follette, Lancaster, Leonard, Lewis, McClintock, Mountjoy, Rogers, Seastrand, Sebastiani, Wright, Wyman.

TOXIC WASTE

Governor's Reorganization Plan. Resolution to reject the governor's proposal for reorganizing the state's toxic waste regulatory programs into a single agency. Plan supporters state that the alleged defects in the plan are not serious enough to warrant its rejection. Democrats want the governor to rework the proposal. Adopted June 27, 46-31. A "Yes" vote is to reject the plan.

DEMOCRATS FOR: Agnos, Alatorre, Areias, Bates, Bronzan, Willie Brown, Calderon, Campbell, Chacon, Clute, Condit, Connelly, Cortese, Costa, Davis, Duffy, Eaves, Elder, Farr, Floyd, Hannigan, Harris, Hauser, Hayden, Hughes, Isenberg, Johnston, Katz, Killea, Klehs, Margolin, McAlister, Molina, Moore, O'Connell, Papan, Peace, Robinson, Roos, Sher, Tanner, Tucker, Vasconcellos, Vicencia, Maxine Waters, Norman Waters.

REPUBLICANS FOR: None.

DEMOCRATS AGAINST: None.

REPUBLICANS AGAINST: Allen, Bader, Baker, Bradley, Dennis Brown, Felando, Ferguson, Frazee, Frizzelle, Grisham, Herger, Hill, Johnson, Jones, Kelley, Konnyu, La Follette, Lancaster, Leonard, Lewis, Mountjoy, McClintock, Naylor, Nolan, Rogers, Seastrand, Sebastiani, Statham, Stirling, Wright, Wyman.

SOUTH AFRICA

AB 1134 (Maxine Waters). Prohibits, after January 1, 1987, the investment of state pension funds or other state monies in companies doing business with South Africa. Sponsors argue that the state must stop supporting a government based on discrimination. Opponents contend the state should stay out of foreign policy issues and that the bill is unconstitutional. Passed June 27, 44-25.

DEMOCRATS FOR: Agnos, Alatorre, Areias, Bane, Bates, Bronzan, Willie Brown, Calderon, Campbell, Chacon, Clute, Condit, Connelly, Cortese, Costa, Davis, Eaves, Elder, Farr, Floyd, Hannigan, Harris, Hauser, Hayden, Hughes, Isenberg, Johnston, Killea, Klehs, Margolin, Molina, Moore, O'Connell, Papan, Peace, Robinson, Roos, Sher, Tanner, Tucker, Vasconcellos, Vicencia, Maxine Waters, Norman Waters.

REPUBLICANS FOR: None.

DEMOCRATS AGAINST: McAlister.

REPUBLICANS AGAINST: Allen, Bader, Baker, Bradley, Dennis Brown, Ferguson, Frazee, Grisham, Herger, Hill, Johnson, Kelley, Lancaster, Leonard, Lewis, McClintock, Mojonnier, Mountjoy, Rogers, Seastrand, Sebastiani, Stirling, Wright.

EYE CARE

AB 1217 (Isenberg). Would allow franchise vision care services to operate in California, allow optometrists to have multiple offices, and permit opticians and optometrists to practice together legally. Supporters argue that restrictions on vision care services are anti-competitive and reduce patient access to care. Optometrists say franchised eye care will reduce the quality of patient care and decreased the quality of eyeglasses and lenses. Passed June 27, 41-38.

DEMOCRATS FOR: Agnos, Alatorre, Bates, Bronzan, Willie Brown, Chacon, Connelly, Costa, Harris, Hauser, Isenberg, Johnston, Klehs, Margolin, Molina, Moore, Papan, Robinson, Roos, Sher, Tanner, Tucker, Maxine Waters, Norman Waters.

REPUBLICANS FOR: Baker, Dennis Brown, Felando, Ferguson, Grisham, Herger, Hill, Johnson, Konnyu, Leonard, Lewis, Mojonnier, Naylor, Nolan, Sebastiani, Statham, Stirling.

DEMOCRATS AGAINST: Areias, Bane, Calderon, Campbell, Clute, Condit, Cortese, Davis, Duffy, Eaves, Elder, Farr, Floyd, Hannigan, Hughes, Katz, Killea, McAlister, O'Connell, Peace, Vasconcellos, Vicencia.

REPUBLICANS AGAINST: Allen, Bader, Dennis Brown, Filante, Frizzelle, Herger, Jones, Kelley, Lancaster, Leonard, Mountjoy, Rogers, Seastrand, Sebastiani, Wright.

RENT CONTROL

AB 483 (Costa). Limits rent control by prohibiting such controls on new construction and on single-family homes, and allows landlords to raise rents between tenancies if former tenant was not evicted. Proponents say bill will spur housing growth by removing rent controls for new construction. Opponents say bill would allow landlords to raise rents arbitrarily because it removes local control. Passed June 24, 45-32.

DEMOCRATS FOR: Areias, Calderon, Chacon, Clute, Connelly, Costa, Duffy, Floyd, Johnston, Katz, Killea, McAlister, Papan, Robinson, Tucker, Vicencia, Norman Waters.

REPUBLICANS FOR: Allen, Bader, Baker, Bradley, Dennis Brown, Felando, Ferguson, Frazee, Frizzelle, Grisham, Herger, Hill, Johnson, Jones, Kelley, La Follette, Lancaster, Lewis, McClintock, Mojonnier, Mountjoy, Naylor, Nolan, Rogers, Sebastiani, Statham, Wright, Wyman.

DEMOCRATS AGAINST: Agnos, Alatorre, Bane, Bates, Bronzan, Willie Brown, Campbell, Condit, Davis, Eaves, Elder, Farr, Hannigan, Harris, Hauser, Hayden, Hughes, Isenberg, Klehs, Margolin, Molina, Moore, O'Connell, Roos, Sher, Tanner, Maxine Waters.

REPUBLICANS AGAINST: Filante, Konnyu, Leonard, Seastrand, Stirling.

INTEREST RATES

SB 563 (Carpenter). Continues for two years the 19.2 percent interest rate or finance charge on retail installment and credit card accounts. Retailers claim they need higher interest rates for another two years. Critics point to declining cost of money and continued low inflation and say continued increase is not justified. Passed July 1, 52-21.

DEMOCRATS FOR: Areias, Bane, Willie Brown, Calderon, Chacon, Condit, Cortese, Costa, Duffy, Eaves, Hauser, Katz, McAlister, Papan, Peace, Robinson, Roos, Sher, Vicencia, Norman Waters.

REPUBLICANS FOR: Allen, Bader, Baker, Bradley, Dennis Brown, Felando, Ferguson, Filante, Frazee, Grisham, Herger, Hill, Johnson, Jones, Kelley, Konnyu, La Follette, Lancaster, Leonard, Lewis, McClintock, Mojonnier, Mountjoy, Naylon, Nolan, Rogers, Seastrand, Sebastiani, Statham, Stirling, Wright, Wyman.

DEMOCRATS AGAINST: Alatorre, Bates, Bronzan, Campbell, Clute, Connelly, Davis, Elder, Farr, Hannigan, Harris, Hayden, Isenberg, Johnston, Killea, Klehs, Margolin, Molina, Moore, O'Connell, Tucker.

REPUBLICANS AGAINST: None.

BANKS

AB 1492 (Calderon). Authorizes out-of-state bank holding companies to acquire ownership or control of a state-chartered bank to permit interstate banking. Promoters point out that 22 states have adopted interstate banking and that out-of-state companies are already providing such services in the state through non-financial institutions. The California Bankers Association favors a na-

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tional phased-in interstate banking plan instead of this bill. Passed June 24, 43-32.

DEMOCRATS FOR: Agnos, Alatorre, Areias, Bates, Bronzan, Willie Brown, Calderon, Clute, Condit, Connelly, Costa, Davis, Duffy, Eaves, Elder, Floyd, Hauser, Hayden, Hughes, Isenberg, Johnston, Margolin, McAlister, Molina, Moore, O'Connell, Papan, Roos, Sher, Tanner, Maxine Waters.

REPUBLICANS FOR: Bader, Baker, Dennis Brown, Felando, Ferguson, Hill, Leonard, Lewis, McClintock, Mojonnier, Nolan, Sebastiani.

DEMOCRATS AGAINST: Bane, Campbell, Chacon, Cortese, Farr, Hannigan, Harris, Katz, Killea, Klehs, Vicencia, Norman Waters.

REPUBLICANS AGAINST: Allen, Bradley, Filante, Frazee, Frizzelle, Grisham, Herger, Johnson, Jones, Kelley, Konnyu, La Follette, Lancaster, Mountjoy, Rogers, Seastrand, Statham, Stirling, Wright, Wyman.

SOUTH AFRICA

AB 1022 (Moore). Prohibits public utilities from furnishing any nuclear, alternative energy or telecommunications technology to the government of South Africa or from importing uranium from South Africa. Sponsors say such technology plays a strategic role in South Africa's apartheid system. Opponents disagree that utilities should be divested of such investments. Passed June 25, 42-33.

DEMOCRATS FOR: Agnos, Alatorre, Areias, Bane, Bates, Bronzan, Willie Brown, Calderon, Campbell, Chacon, Clute, Condit, Connelly, Costa, Davis, Duffy, Eaves, Farr, Floyd, Hannigan, Harris, Hauser, Hayden, Isenberg, Johnston, Katz, Killea, Klehs, Margolin, Moore, O'Connell, Papan, Peace, Roos, Sher, Tanner, Tucker, Vasconcellos, Vicencia, Maxine Waters, Norman Waters.

REPUBLICANS FOR: Hill.

DEMOCRATS AGAINST: McAlister, Robinson.

REPUBLICANS AGAINST: Allen, Bader, Baker, Bradley, Dennis Brown Felando, Ferguson, Filante, Frazee, Frizzelle, Grisham, Herger, Johnson, Jones, Kelley, Konnyu, La Follette, Lancaster, Leonard, Lewis, McClintock, Mojonnier, Mountjoy, Nolan, Rogers, Seastrand, Sebastiani, Statham, Stirling, Wright. Wyman.

SENATE

STATE BUDGET

SB 150 (Alquist). Appropriates $35.2 billion for the support of state government. See description under Assembly votes. Passed June 13, 33-6.

DEMOCRATS FOR: Alquist, Ayala, Boatwright, Carpenter, Deddeh, Dills, Foran, Garamendi, Bill Greene, Leroy Greene, Hart, Keene, Lockyer, McCorquodale, Mello, Petris, Presley, Robbins, Roberti, Rosenthal, Stiern, Torres, Vuich, Watson.

REPUBLICANS FOR: Bergeson, Beverly, Craven, Davis, Doolittle, Maddy, Marks, Nielsen, Seymour.

DEMOCRATS AGAINST: Montoya.

REPUBLICANS AGAINST: Campbell, Ellis, Richardson, Royce, Russell.

AIR BAGS

SB 369 (Watson). Requires passenger vehicles sold in California after 1987 to include optional air bag equipment. Proponents state that federal law requires cars to be equipped with automatic restraints unless a sufficient number of states enact mandatory seat belt laws. Some opponents are against air bags, while others do not believe automatic restraints saves lives. Failed June 18, 18-17.

DEMOCRATS FOR: Carpenter, Deddeh, Dills, Foran, Garamendi, Bill Greene, Keene, Lockyer, McCorquodale, Mello, Petris, Roberti, Rosenthal, Torres, Vuich, Watson.

REPUBLICANS FOR: Campbell, Marks.

DEMOCRATS AGAINST: Alquist, Ayala, Presley, Stiern.

REPUBLICANS AGAINST: Bergeson, Beverly, Craven, Davis, Doolittle, Ellis, Maddy, Morgan, Nielsen, Richardson, Royce, Russell, Seymour.

UNITARY TAX

SB 85 (Alquist). Revises California's method of taxing multinational corporations doing business in the state. Proponents say bill will further economic and business development by eliminating unfair tax burden on out-of-state companies. Critics claim state would lose hundreds of millions in tax revenues. Passed June 25, 24-12.

DEMOCRATS FOR: Alquist, Ayala, Boatwright, Carpenter, Deddeh, Dills, Bill Greene, Leroy Greene, Keene, Lockyer, McCorquodale, Mello, Montoya, Robbins, Roberti, Torres, Watson.

REPUBLICANS FOR: Bergeson, Campbell, Craven, Doolittle, Ellis, Maddy, Marks.

DEMOCRATS AGAINST: Garamendi, Hart, Petris, Presley, Rosenthal, Stiern, Vuich.

REPUBLICANS AGAINST: Beverly, Davis, Nielsen, Royce, Russell.

CABOOSES

SB 719 (Alquist). Would require freight trains to operate with cabooses. There is controversy between unions and railroads as to whether cabooses are still needed on trains. Passed June 20, 21-13.

DEMOCRATS FOR: Alquist, Ayala, Boatwright, Carpenter, Deddeh, Dills, Foran, Garamendi, Bill Greene, Leroy Greene, Keene, Lockyer, McCorquodale, Mello, Petris, Presley, Roberti, Rosenthal, Stiern, Torres, Watson.

REPUBLICANS FOR: None.

DEMOCRATS AGAINST: Hart, Vuich.

REPUBLICANS AGAINST: Bergeson, Craven, Doolittle, Ellis, Maddy, Morgan, Nielsen, Richardson, Royce, Russell, Seymour.

COMMITTEE VOTES

GAY RIGHTS (AB 1, Agnos). Would prohibit job discrimination on the basis of a person's sexual orientation. Assembly Labor and Employment Committee defeated April 11, 5-5.

DEMOCRATS FOR: Agnos, Bates, Klehs, Margolin, O'Connell.

REPUBLICANS FOR: None.

DEMOCRATS AGAINST: McAlister.

REPUBLICANS AGAINST: Jones, Mountjoy, Seastrand, Wyman.

ABSENT: Alatorre (D), Kelley (R).

NOT VOTING: Floyd.

DISCOUNTED DRINKS (SB 876, Russell). Would ban restaurants and bars from offering free or reduced-price drinks as part of "happy hour" promotions. Failed April 23, 2-2, in Senate Governmental Organization Committee.

DEMOCRATS FOR: Keene, Robbins.

REPUBLICANS FOR: None.

DEMOCRATS AGAINST: Foran.

REPUBLICANS AGAINST: Beverly.

ABSENT OR NOT VOTING: Alquist (D), Carpenter (D), Bill Greene (D), Maddy (R), Rosenthal (D), Campbell (R), Dills (D).

BILL INTRODUCTIONS (SCR 1, Hart). Would limit the number of bills a senator could introduce each session to 45 and the number an Assembly member could introduce to 60. Senate Rules Committee referred for interim study, 3-2, April 17.

DEMOCRATS FOR: Mello, Petris, Roberti.

REPUBLICANS FOR: None.

DEMOCRATS AGAINST: None.

REPUBLICANS AGAINST: Doolittle, Craven.

MINIMUM WAGE (AB 293, Floyd). Would increase state minimum wage from $3.35 to $4.00 per hour. Failed May 9, 5-6, in Assembly Labor and Employment Committee.

DEMOCRATS FOR: Alatorre, Floyd, Klehs, Margolin, O'Connell.

REPUBLICANS FOR: None.

DEMOCRATS AGAINST: McAlister

REPUBLICANS AGAINST: Jones, Kelley, Mountjoy, Seastrand, Wyman.

ABSENT: Agnos (D), Bates (D).

PRIMARY ELECTION (AB 667, Ross Johnson). Would change presidential primary election from June to March. Failed April 30, 4-3, in Assembly Elections and Reapportionment Committee.

DEMOCRATS FOR: Peace.

REPUBLICANS FOR: Filante, La Follette, Mountjoy.

DEMOCRATS AGAINST: Chacon, Davis, Klehs.

REPUBLICANS AGAINST: None.

ABSENT: Elder (D).

NOT VOTING: Costa (D).

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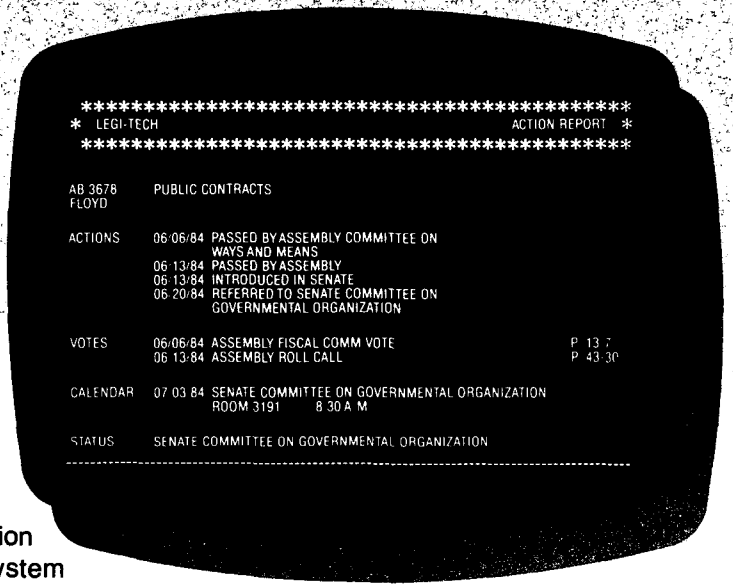
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AB 3678 PUBLIC CONTRACTS
FLOYD
ACTIONS 06/06/84 PASSED BY ASSEMBLY COMMITTEE ON WAYS AND MEANS
06/13/84 PASSED BY ASSEMBLY
06/13/84 INTRODUCED IN SENATE
06/20/84 REFERRED TO SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION
VOTES 06/06/84 ASSEMBLY FISCAL COMM VOTE P 13 7
06/13/84 ASSEMBLY ROLL CALL P 43 30
CALENDAR 07/03/84 SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION ROOM 3191 8:30 A.M.
STATUS SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

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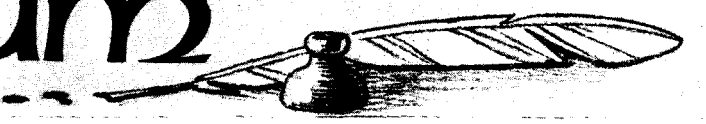

Women reporters

In her article on women reporters (*CJ*, June 1985) Rebecca Lavally accurately quotes me when she writes, "I'm frankly bored with the question" of why there aren't more women in the Capitol press corps. However, she seriously misrepresents my views when she suggests that I'm equally unconcerned with the lack of minorities reporting from the Capitol. I was assigned to KRON-TV's Capitol bureau nearly eight years ago. Until *The Los Angeles Times* assigned a black reporter to their Capitol bureau recently I was the only black reporting full time at the Capitol during those entire eight years. The shortage of black, Hispanic and other minorities in the Capitol press corps is a serious problem. A certain perspective and sensitivity can be missed when news is filtered through white reporters. It's an issue that needs to be addressed in the board rooms of our major newspapers and television stations.

GINGER RUTLAND
Sacramento

Regarding Rebecca LaVally's article on women reporters, what sets the state Capitol apart from any other male-dominated arena? Was the article a sincere representation of the difficulties facing women reporters, past and present, or a personal account of sexual propositions made to Ms. LaVally? I found the references to the author's encounters unnecessary and debilitating to the overall purpose and goal of the article. It disturbs me to see an important topic (sexual discrimination) put forth in such an unjust manner.

DANIELLE J. WALTERS
San Luis Obispo

A hearty "well done" to Rebecca LaVally for blowing the whistle on sexual harassment in the Capitol. It's the same oppressive male power madness that women have long been forced to accept as "the norm." Senator Lockyer has our permission to be "fully male," but only on the condition that he merges that with being fully human as well; to express as much care and respect for women in politics as he would the women in his own family.

BOB GOMEZ
Berkeley

Court elections

Regarding the debate over the propriety of the 1986 Supreme Court elections (*CJ*, June 1985), Professor Stolz misreads the intention of the Founding Fathers in securing tenure for judges. Number 78 of the papers collected as "The Federalist" argues at length for security of tenure and not out of special fear of undue executive influence. In fact, the writer (Alexander Hamilton) particularly notes that oppression by the monarch led to the English reform and that this is to be distinguished from the American case:

"That inflexible and uniform adherence to the rights of the Constitution, and of individuals, which we perceive to be indispensable in the courts of justice, can certainly not be expected from judges who hold their offices by a temporary commission. Periodical appointments, however regulated, or by whomsoever made, would, in some way or other, be fatal to their necessary independence. If the power of making them was committed either to the executive or legislature, there would be danger of an improper complaisance to the branch which possessed it; if to both, there would be an unwillingness to hazard the displeasure of either; if to the people, or to persons chosen by them for the special purpose, there would be too great a disposition to consult popularity, to justify a reliance that nothing would be consulted but the Constitution and the laws."

ALBERT THOMAS HENLEY
Attorney
Los Altos Hills

Kesterson and the Governor

Santa Barbara County Supervisor William B. Wallace's letter was inaccurate in the June issue of the *Journal*. Although Governor Deukmejian did call me, I was not the "swing vote in approving the Hyatt project." The vote was 4-to-1, with only Wallace voting against it. Furthermore, it was not to the "dismay of the majority of Goleta Valley residents." The major homeowners' group nearest the project was in support, as was the Goleta Valley Chamber of Commerce and many others. It is unfortunate that Supervisor Wallace has tried to inject partisan politics into a local land-use decision.

ROBERT E. KALLMAN
Second District Supervisor
Santa Barbara County

Prisons

Concerning your article on prison construction (*CJ*, June 1985), it is no coincidence that public concern for safe communities has been translated into "get tough" policies and programs that increase prison population and, more to the point, increase the budget for the Department of Corrections. In fact the department is not in the business of "correcting." It is in the business of incarcerating. But isolating inmates by guarding them from positive influences (family, friend and community organizations) and relieving the inmate of ordinary social responsibilities for years at a time does not have a neutral effect. The alternative system is one that encourages family and community involvement to the point of neutralizing criminal populations, overseeing the rehabilitative processes and directing the economics of the system toward rehabilitation.

HELEN LOCKS
Tamal

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Perspective from WASHINGTON

By Leo Rennert

The great pasta war

California, the nation's premier agricultural state, has become embroiled in a nasty trade war with Europe — with each side singling out a growing array of farm products for special retaliation. It's a conflict no one really wants, yet one nobody seems able to stop. As diplomats on both sides of the Atlantic intensify efforts to bring about a cease-fire, California members of Congress are turning hawkish and calling for escalation. Even as a shaky truce put hostilities temporarily on hold, there was a sense that events may still be hurtling out of control.

THE HOSTILITIES DATE BACK to the late 1960s when the European Economic Community approved a preferential tariff for imports of lemons and oranges from Mediterranean countries. European leaders justified the move as a way to help the economies of Israel and Arab states by letting them earn more foreign exchange and enabling them to buy more industrial goods. But Europe's buy-Mediterranean policy did not sit well with American citrus producers who were shut out of a potentially lucrative market. Finally, in 1976, the California-Arizona Citrus League and other aggrieved groups filed a formal complaint with Washington. Europe and the United States sought a neutral forum to resolve the dispute — the General Agreement on Tariffs and Trade (GATT), a weak cop on the international trade beat. U.S. officials argued that Europe's preferential policy was a breach of fair-trade rules and cost American citrus exporters nearly $50 million annually in lost business. In January a GATT panel ruled in favor of the U.S. and urged the Europeans to institute corrective action. California producers appeared to be within sight of victory. But instead of ending the matter, the GATT report merely set the stage for a new cycle of punitive measures.

The European Community served notice that it was unwilling to accept the GATT recommendations and stuck by its guns. U.S. patience was at an end. On June 30th, President Reagan retaliated by raising import dues on European pasta — from less than one percent to 40 percent for pasta with egg and to 25 percent for pasta without egg. If California oranges couldn't sell in Rome, Italian noodles would be priced out of Los Angeles supermarkets. The U.S. picked pasta for its counter-attack because the projected loss to European exporters was on a par with the reduced business suffered by American citrus producers. The "great pasta war," as the conflict immediately was dubbed, was under way.

After complaining for years that Washington had followed an appeasement policy toward foreign predatory trade practices, California farm interests and their congressional supporters were overjoyed. "This should be a signal to other countries that America is no longer going to ignore violations in trading," said California GOP Senator Pete Wilson. "We can no longer sit idly by while jobs are lost and our industries crippled." The reaction was bipartisan. Said Democratic Congressman Richard Lehman of Sanger: "This is long overdue. We're only doing to them what they have done to us." Asked about possible European counter-moves, Lehman added: "They can't afford a trade war, and we don't want a trade war."

The Europeans, however, fired back almost immediately — again taking special aim at California. In retaliation for higher tariffs on pasta, the European Community announced that it would raise import duties on U.S. lemons from eight to 20 percent and on walnuts from eight to 30 percent. The move against lemons was more symbolic than real since they were virtually barred from European markets by prior discriminatory tariffs. But the penalty on walnuts, grown primarily in California, had a special sting. Most U.S.-produced walnuts are sent abroad. Shipments to Europe last year totaled more than $32 million. European officials said they had no choice but to respond to Reagan's move against pasta. Frans Andriessen, a top agricultural official of the European Community, conferred in Washington with Secretary of State George Schultz and Agriculture Secretary John Block, then expressed the hope that cooler heads might prevail. But among Californians, there were cries for additional retaliation. Wilson said he was "mad as hell" and asked the president to limit imports of European wines. That indeed would be escalation. With California wineries increasingly on the defensive, European wines have flooded the American market in recent years — with shipments nearing the $2 billion-a-year mark. Wilson introduced legislation to strengthen U.S. retaliatory strategy in trade disputes. "If we fall back or fail to return the fire, the war is lost," he declared.

By mid July each side agreed to hold its higher tariffs in abeyance to give negotiators additional time. But Congressional impatience continues to run high. European and American officials acknowledged that neither side entered the fray with clean hands. Each noted the spreading practice of providing export subsidies to capture foreign markets. "We are all angels and sinners alike," said Andriessen. Echoed Block: "There are skeletons in both closets."

BUT DEFINING THE PROBLEM proved easier than resolving it. Artificial trade barriers, wherever they may lurk, are not the only reason why foreign goods are flooding into this country and American exports are taking a beating. With the U.S. trade deficit soaring toward $140 billion this year, there's growing awareness that the strong dollar is just as much a culprit, if not more so. And the dollar probably will remain overvalued as long as the U.S. is running a $200 billion deficit and sucking up foreign capital to finance it. Even if all trade barriers were dismantled, California wines would cost far more in Europe than French and Italian wines do here because exchange rates, thrown out of kilter by a robust dollar, favor imports over exports. What this means is that some trade accommodations are possible at the edges but the central problem will remain with us for quite a while.

Last May, at the Bonn economic summit, Reagan failed to win support for a new round of international trade negotiations that would set ground rules for farm products. French President François Mitterrand, worried about political unrest among his heavily subsidized farmers as he prepares for difficult 1986 elections, blocked Reagan's move. The U.S. may try again at next year's summit, which will be held in Tokyo — a fitting place to mull over American trade woes.

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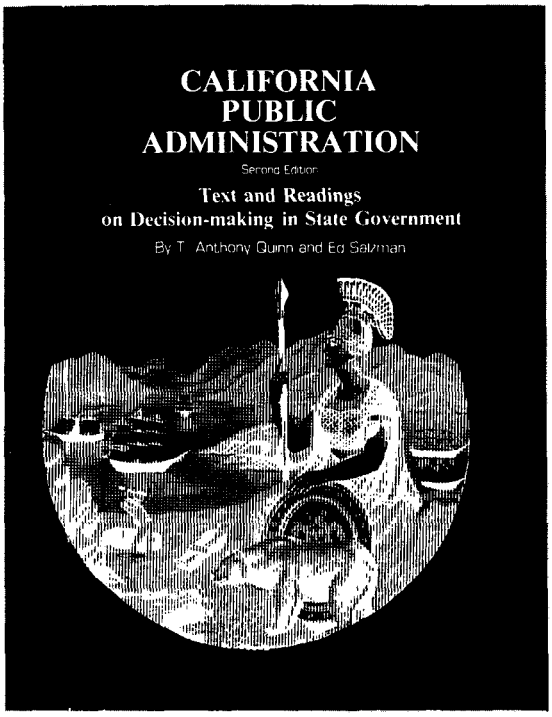

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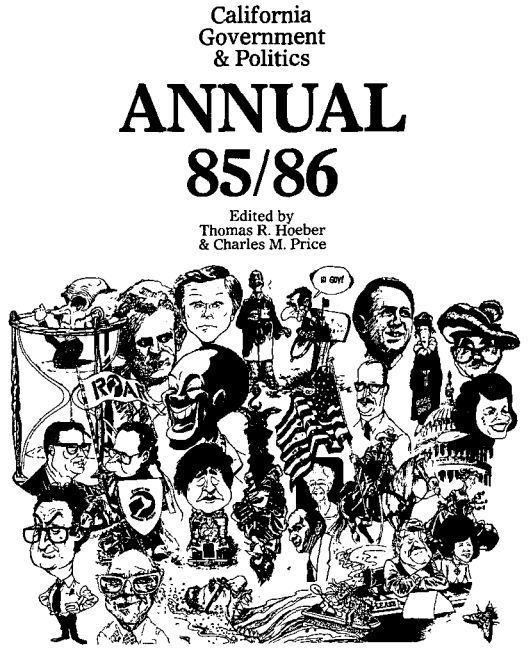

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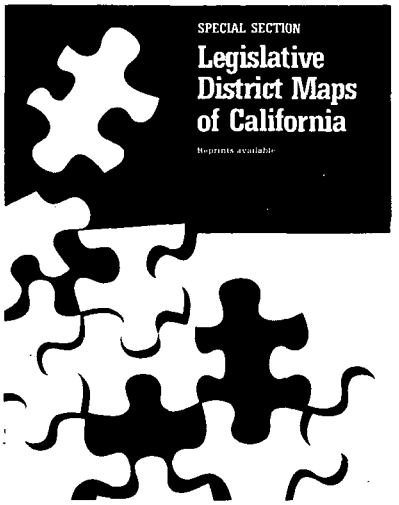

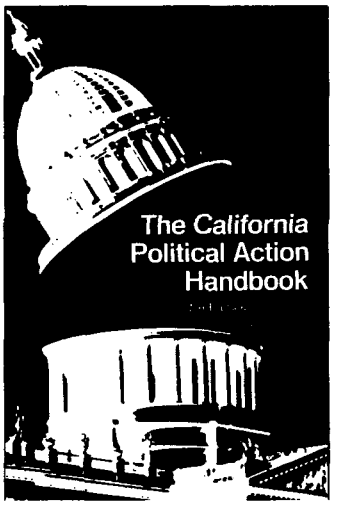

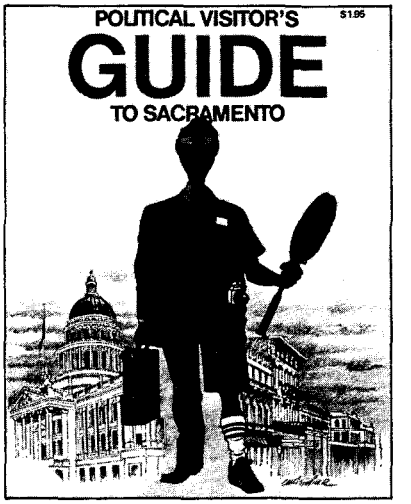

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